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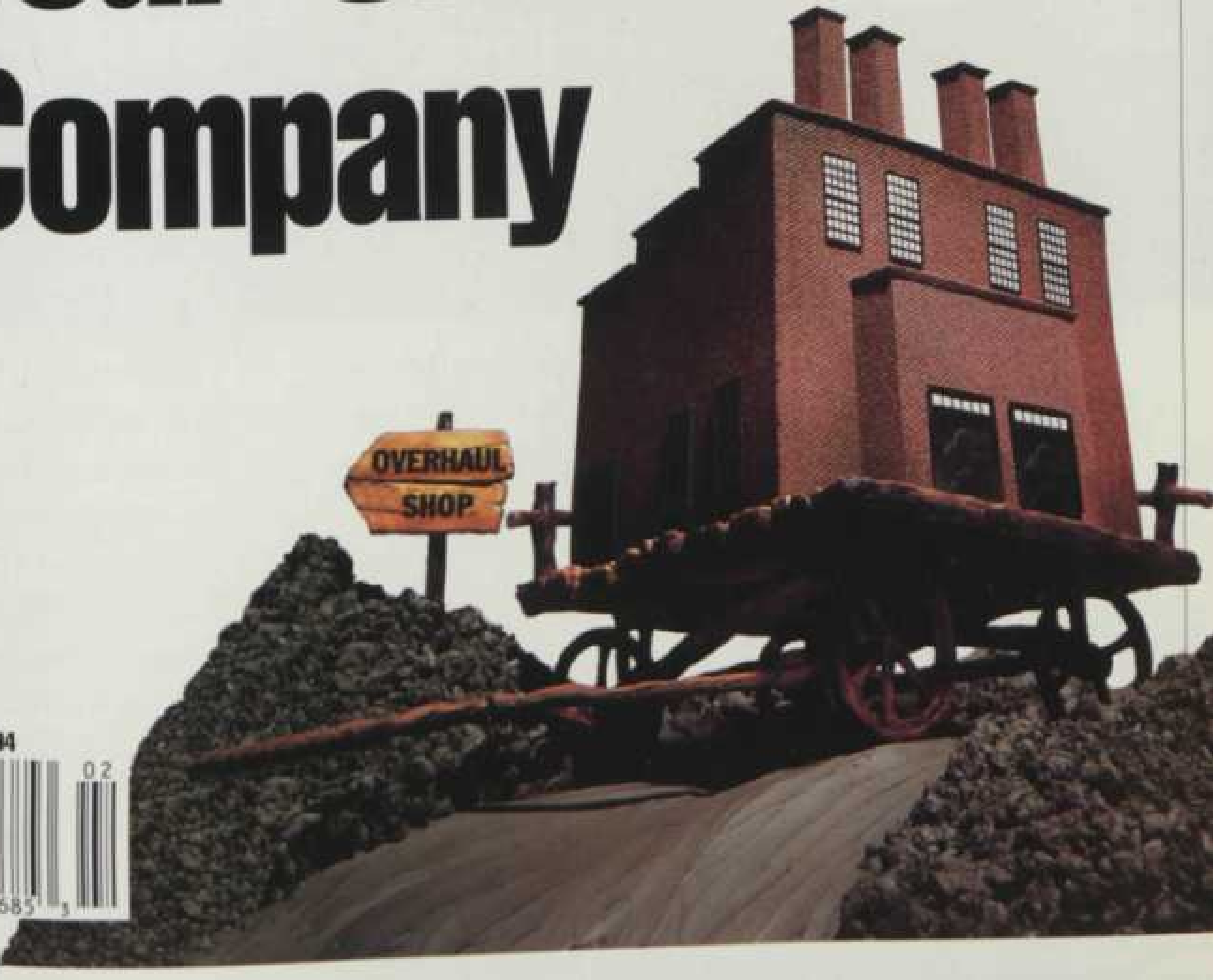
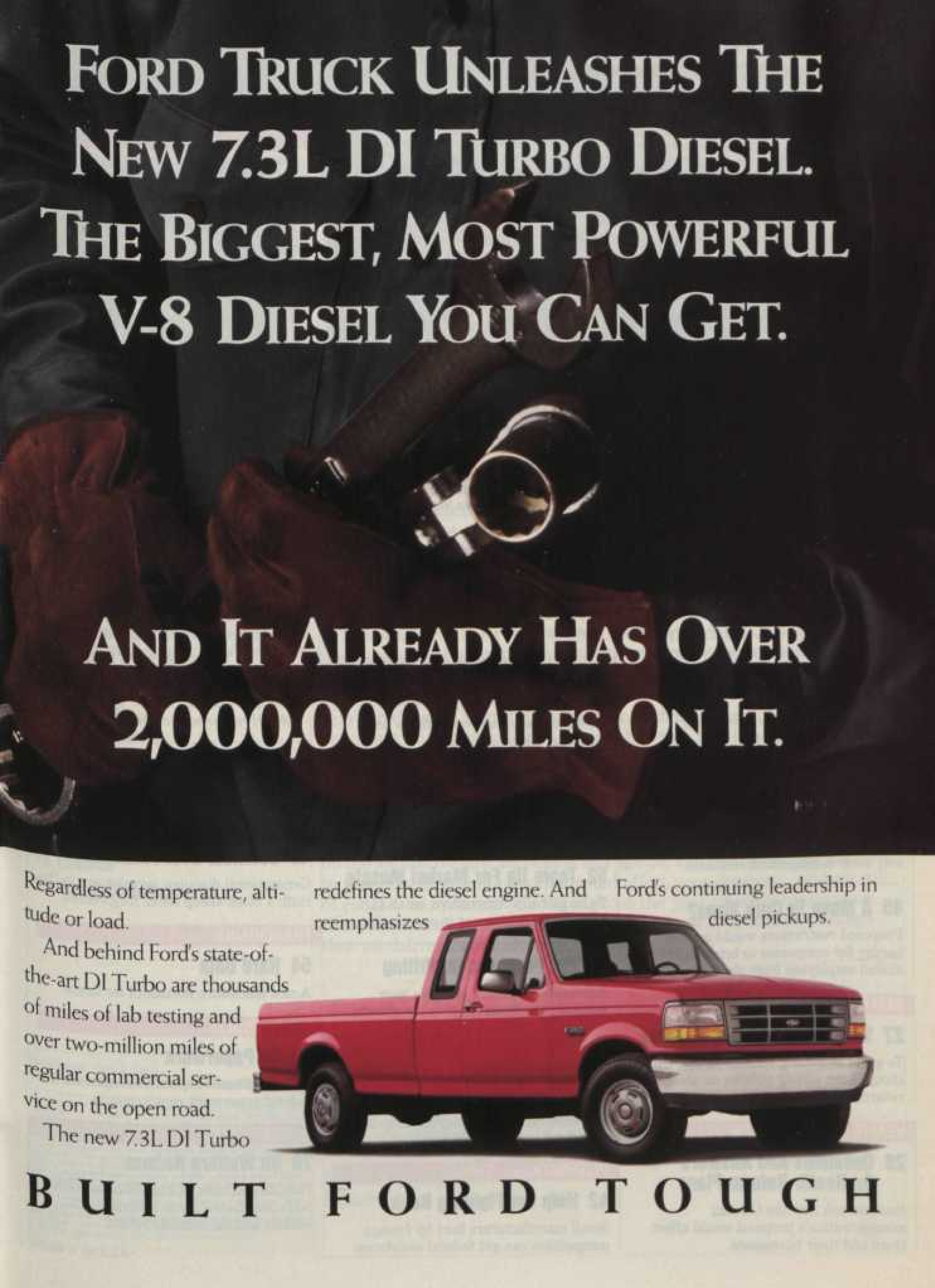


FEBRUARY 1994


DIRECT INJECTION
TURBO
DIESEL
DIESEL


Ford Truck Unleashes The New 7.3L DI Turbo Diesel. The Biggest, Most Powerful V-8 Diesel You Can Get.
And It Already Has Over 2,000,000 Miles On It.
Regardless of temperature, altitude or load.
And behind Ford's state-of-the-art DI Turbo are thousands of miles of lab testing and over two-million miles of regular commercial service on the open road.
The new 7.3L DI Turbo redefines the diesel engine. And reemphasizes Ford's continuing leadership in diesel pickups.
BUILT FORD TOUGH

Nation'sBusiness®

Published by U.S. Chamber of Commerce Washington, D.C.

PHOTO: ©PATRICIA LANZA

In re-engineering *the Vortex Industries garage-door company, Frank Fulkerson, center, set out to give "power and respect to the front-line people." Such tenets of re-engineering are increasingly taking hold at small firms. Cover Story, Page 16.*

PHOTO: ©RICK FRIEDMAN—BLACK STAR

Day care—*a plus for Elizabeth and Julie McNichols, in Mashpee, Mass.—is helping many firms. Benefits, Page 43.*

VOL. 82, NO. 2

PHOTO: SHMUEL THALER

Consumer demands *for quality drive sales of Odwalla Inc.'s fresh juices, says CEO Greg Steltenpohl. Making It, Page 10.*

DEPARTMENTS

Cover Design: Hans A. Baum
Cover Photo: ©William Whitehurst—The Stock Market

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Editor's Note

A Company Make-over

Little firms can get bigger every day, and that's mostly good. But growth can also mean division and subdivision of responsibilities; a proliferation of titles, reports, memos, and meetings; and the building of physical and symbolic walls separating people who once worked around a kitchen table or a basement workbench.

PHOTO: DON HAMERMAN—FOLIO, INC.

Such developments add up to bureaucracy, and that's not always good. Entrepreneurs sometimes find that the trappings of growth threaten to stifle the innovative drive that brought the business into existence. Avoiding such risk is the theme of this month's cover story, "Re-engineering Your Company," Page 16. It was written by Senior Editor Michael Barrier, our expert on effective management techniques, and it points out the many ways that re-engineering can be as effective for smaller companies as for larger ones.

This article will alert you to the factors, including outside forces you might not have thought of, that you should consider in deciding whether your company needs a make-over, what going through that process is like, and what results you can expect.

When it comes to getting down to the fundamentals of your business, you won't find more valuable advice than this article offers.

Congress faces a full range of issues important to business as lawmakers begin their 1994 session. An overview of the subjects high on the legislative agenda begins on Page 24, and this guide will alert you to potential developments that could affect your business. And we will, of course, be updating you throughout the year on what happens on these important issues. It's all part of the total information package that we deliver to our readers.

Robert T. Gray

Robert T. Gray
Editor

Letters

Health Plan's Impact On Insurance Brokers

What will happen to insurance brokers under President Clinton's health-care plan? Your November cover story, "Small Firms' Stake In Health Reform," and others have said little. In California alone, more than 150,000 brokers and their employees would be replaced by a regional purchasing alliance.

Also, your November Where I Stand questions were absurd, such as, "If a group-purchasing cooperative could save you 15 percent on health-insurance costs, would you join?"

Why don't you just fill in the answer for us according to your agenda?

Vincent C. Hing
Hing and Associates
Insurance Brokers, Inc.
Los Angeles

Subsidies = Taxes

Your breakdown on the impact the Clinton administration's plan would have on various groups said that a federal subsidy would make up the difference between the employer's cost and the average cost of insurance. Might I point out to you that a subsidy is nothing but a euphemism for taxes?

Jon VanderLey
Fastrac Construction Inc.
Winter Garden, Fla.

Eliminate Bureaucracies

I agreed with the January letters that opposed Clinton's plan, but I would go even further. I propose the following:

- Abolish government assistance (that is, taxpayer assistance) for health care.
- Enact a law eliminating all private health insurance companies.
- Eliminate all federal and state health-care bureaucracies, except for monitoring to ensure doctors and hospitals meet high standards.
- Cut federal income taxes in half.
- Let people pay for their own health care out of their own pockets.

The result would not be a major disruption in the health-care industry but instead a realignment of medical expenses and much lower costs for all.

James A. Fitts
President
FAR, Inc.
Urbandale, Iowa

Where Is My Choice?

If a health-care purchasing alliance takes over, where is my choice? The small insurance companies would be gone. Would I not become a pawn in a new government entitlement scam?

Richard DeCamp
Cincinnati

The Government Never Pays

December's Dateline: Washington item on the latest version of President Clinton's health-care plan said that the federal government would pay the difference between the employer's share and the total cost of health insurance. Excuse me, but government never pays for anything—ever!

B.K. Keena
Certified Public Accountant
Englewood, Colo.

PHOTO: ©TOM MCCARTHY—FOLIO, INC.

Who will pay *is a fundamental question in the emotional debate over health-care reform.*

[Editor's Note: In a feature introduced on Page 28 of this issue of Nation's Business, *we answer questions from readers on how the Clinton administration's plan and various other health-care proposals now pending in Congress would affect their companies and employees. Information on how to submit questions appears with this article.]*

No Reason To Doubt Benefits Of NAFTA

Why are there any doubts about the employment consequences of the North American Free Trade Agreement? Our own country's copious high-paying jobs are largely a result of just such a NAFTA-type common market: 50 independent (and interdependent) states trading with

each other without customs barriers, all to the advantage of job-seekers in every one of those 50 domains.
John B. Shallenberger
Chairman
Connellsville Corp.
Connellsville, Pa.

Misleading Numbers On Exports

The data in the October Dateline: Washington item on increased U.S. exports to Mexico are misleading. Ross Perot and his organization, United We Stand, report that the higher volume resulted from shipment of parts, supplies, and machinery to manufacture finished goods to be sent back to the United States. A low percentage entered the Mexican consumer market.

This surplus is a mirage.
Wayne Clow
President
Crown Electronics
Mesquite, Texas

Why Not Made In America?

NAFTA passed, and that's a boon to the United States. Troubling trade issues, however, remain. As I assembled and, yes, played with my children's Christmas toys, I noticed that most of them were manufactured in Pacific Rim countries where American workers have no real chance to compete. OK, the products work well, but my question is why were they not made here in America by Americans?
George Ewen
The Mexitronics Corp.
Roanoke, Va.

Color-Blind Readers Were Neglected

The color-coded map with "More Sales Taxes On Services?" in the January issue may have discriminated against color-blind people like me and violated the spirit of the Americans with Disabilities Act. It is ironic that this followed an excellent article on the ADA.
Nat B. Dellavalle
Manager
Dellavalle Laboratory, Inc.
Fresno, Calif.

Government Surveys Are Needless Burdens

Regarding the Where I Stand poll [December] on government-mandated paperwork: Required surveys of companies by the government should be eliminated. They consume countless resources and don't serve small business's interests.
Robert McNichols
Coordinated Services
Management, Inc.
Roanoke, Va.

Employees Vs. Contractors: How The IRS Reacts

This is in response to your August cover story, "Contract Workers: A Risky Business."

ILLUSTRATION: ©WILLIAM COULTER

The Internal Revenue Service would prefer that all workers be classified as employees rather than contractors.

The reasons are simple:

■ Collection of income-tax withholding and FICA-Medicare is immediate.

■ FICA-Medicare is based on the *gross* pay of employees but only the *net* income of the self-employed.

■ The self-employed get business deductions not available to employees.

A solution would be for the government to accept the determination made by employers and contractors alike. If the IRS spent more time trying to catch tax cheaters, it wouldn't need to harass small-business people.
Anuh
Mount Judea, Ark.

Fear And Loathing

It recently took me two days to work up the nerve to open a letter from the Internal Revenue Service. It turned out to be good news: I had money left in an Individual Retirement Account that I thought had been closed years ago. The savings bank had asked the IRS to forward the information to me. But isn't it a shame that a simple letter could invoke so much fear on my part.

Anyone who operates a business would be able to sympathize.
Bill James
Insurance Agent
Longmont, Colo.

Employee Ownership Can Boost Performance

An item in October's Family Business section, "Examine Why Key Employees Want Stock Ownership," suggested that providing stock to key employees in family-owned businesses is often not necessary. While sharing ownership with employees may not be necessary, it may be desirable.

Our studies have shown that going further and sharing ownership broadly with all employees can improve corporate performance dramatically. We have also found that employee ownership is a tax-efficient way to help provide for a business's continuity.
Corey Rosen
Executive Director
National Center
For Employee Ownership
Oakland, Calif.

FDA Doesn't Certify Labs That Analyze Food

It would be a great help to companies if the Food and Drug Administration certified laboratories that analyze samples of food for carbohydrates, fat, and vitamins, as stated in the December Managing Your Small Business item, "Food-Labeling Law: No Piece Of Cake." That is not the case, however. The FDA does not certify any labs. It is entirely up to the food company to ensure that it is dealing with a lab that has good quality control. The FDA will step in if there is a problem.
Gisela Bolte
Public Relations
Albert Uster Imports, Inc.
Gaithersburg, Md.

[Editor's Note: The FDA, as reader Bolte points out, does not certify laboratories that perform nutrient analyses. The agency says that its compliance activities are based on "appropriate methods published by the Association of Analytical Chemists," and that companies having food analyzed might want to "ascertain if the laboratory is familiar with those methodologies."]

Who's Who In The Photo On Auction Bargains

The December It's Your Money item on auctions didn't say where an accompanying photograph was taken.

Leading an auction at Langston Auction Gallery, located in Wilson, N.C., were Bobby Langston and his wife, Shirley. Helping them on the floor was an associate, Ervin Durham.
Phil Burrows
Editor and Publisher
Carolina Antique News
Charlotte, N.C.

Send letters to Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000, and include your phone number. You may fax your letter to (202) 887-3437. Because of space limitations, we cannot print all letters received, and those selected for publication may be condensed.*

Entrepreneur's Notebook

By Carla Connor

Personal Growth, Professional Success

In November 1990, I was scared and desperate. Laid off for months from a sales job at a company that sold industrial safety equipment, down to $100 in savings, and trying to sell my car to keep my head above water, the only thing I was sure of was that I no longer wanted to work for someone else.

On the other hand, I was afraid to fail and wasn't entirely comfortable with the idea of being in business on my own.

My former customers had promised that if I obtained the safety equipment they needed, they would buy from me. They had a confidence in my ability that I lacked in myself. I had long dreamed of running a business, but I had envisioned having a partner, maybe a husband or a friend.

So when I started C&B Industrial Safety Inc. on my own out of my home in South Florida, I made myself vice president. By doing so, I gave myself something of an imaginary boss, someone who really couldn't tolerate mistakes because the business was still so new and every decision so critical.

The plain truth was that I couldn't afford to make mistakes while the company was in its start-up phase.

Although C&B was named for my two whippet dogs—Candy and Buva—I'm sure people thought it stood for "Carla & Somebody." They had no idea or concern that I was a one-person company, that the back supports I sold were stored behind my couch, that I stored safety glasses in my linen closet, and that my dining room table doubled as the shipping department.

The results were that C&B delivered exactly what it promised, on time and with no pricing surprises.

No one ever questioned my title or whether the company had a president. The few people who knew exactly what was going on didn't care because they were the ones who believed in me all along. And as the business grew, I came to believe in myself.

Carla Connor's *safety-products firm has moved from her home to a 3,000-square-foot warehouse.*

But there was such pressure when this company was started—as I am sure there is in most shoestring start-ups—that having the bigger title would have almost been a burden. Being a vice president allowed me to concentrate on what I was good at—sales and communicating to learn the needs of my customers—without feeling the other pressures that I believed were inherent in "heading up" a company.

With no overhead, my business was profitable from the first day. My comfort level increased, and growing into the role of president felt very natural. I actually assumed the title when I wanted to make my first employee, Linda Pomerantz, a vice president. Her support and her work had earned that designation, even if she didn't feel quite comfortable with the title.

Where I once had that imaginary partner to hold me up, today I have four employees who act as a supporting team. By working closely with them on important matters and keeping lines of communication open, I can make key decisions comfortably and without the nervousness and pressure that so many entrepreneurs go through.

The whole experience has given me more self-respect, and I believe that people look at me now as president of a successful company. Where I once felt that I didn't deserve the title, I now know I have earned it.

I have the same natural fears as most entrepreneurs, but I now have confidence. C&B Industrial Safety's revenues topped $700,000 in 1993. The company now operates out of an office and a 3,000-square-foot warehouse in Sunrise, Fla.

The moral of this story is that what is most important is the business itself and the support it can generate from appreciative customers—like the people who believed in me—not what title the entrepreneur takes. It doesn't matter whether you are a vice president or "supreme commander," so long as the customer knows that you can deliver.

It's frightening being a start-up entrepreneur, but fear of failure can be a terrific motivator. Coupled with good business sense and accurate advice from people you trust, it can help you grow into the position, no matter what the title. NB

Carla Connor is president and founder of C&B Industrial Safety Inc., Sunrise, Fla. She prepared this account with Nation's Business *Contributing Editor Charles A. Jaffe.*

Readers with special insights on meeting the challenges of starting and running a business are invited to contribute to Entrepreneur's Notebook. Write to: Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000.*

What I Learned

Starting a company on your own can be scary, but fear of failure can be a powerful motivation to succeed. What's most important is the business itself, not the entrepreneur's title.

Dateline: Washington

Business news in brief from the nation's capital.

EMPLOYEE BENEFITS

White House Flexible On Health-Reform Details

Congress will enact health-care reform legislation before the fall elections, but expect the debate to be "a real roller coaster ride politically," says Ira Magaziner, chief architect of President Clinton's plan.

In a recent address to business representatives at the U.S. Chamber of Commerce, Magaziner expressed optimism that the administration can strike a compromise with backers of the two leading rival proposals, one by Rep. Jim Cooper, D-Tenn., and the other by Sen. John H. Chafee, R-R.I. These lawmakers' bills don't include two of Clinton's most controversial proposals: requiring all employers to provide health insurance and imposing controls on insurance premiums.

"We believe that we can work out differences with the Cooper and Chafee bills," Magaziner said. He noted that both share many of the six principles underlying the president's proposal: universal coverage, administrative simplicity, cost savings, consumer choice of health plans, quality, and exercise of shared responsibility by requiring everyone to pay into the system.

"Although we have put forth a detailed proposal, we don't pretend to have all the answers," Magaziner said. "We are flexible on details. Any changes in details of how to reach these six principles will reflect a desire to reach a consensus."

Magaziner invited business groups to participate in a "constructive dialogue" on reform that does not "degenerate into destructive, partisan name-calling." He said: "The Chamber has been among the best groups in Washington on this. You have always had a constructive proposal to offer whenever you disagreed with us." (For answers to questions on the Clinton plan, see Page 28.) —*Roger Thompson*

PHOTO: T. MICHAEL KEZA

Health-reform *architect Ira Magaziner: "We can work out differences."*

REGULATION

EPA Chief Plans To Implement New Enforcement Method

Carol Browner, head of the Environmental Protection Agency (EPA), has announced a landmark plan to control pollution on an industry-by-industry basis. When it's implemented, the plan could put to rest EPA's traditional "one-size-fits-all" approach to enforcing environmental laws.

"The old piecemeal approach, where the air office looks at air pollution, the water office looks at water pollution, and so on, doesn't work for me as a regulator, and it doesn't work for you," Browner told business representatives recently at a town hall meeting at the U.S. Chamber of Commerce.

The EPA will begin by selecting an industry to try the new approach. The industry selected will serve as a model when the EPA later phases in other sectors of the business community, Browner said. Regulators will work with business owners in the pilot industry to identify the best pollution-preventing technologies that apply specifically to them.

Browner said one of her goals is to find ways to cut back on any unnecessary EPA paperwork and reporting requirements. The shift in enforcement may also mean better compliance assistance from the agency, she said, because business managers will be able to go to a single source instead of numerous offices to learn how to comply with diverse laws such as the Clean Air and Clean Water acts.

—*Laura M. Litvan*

TAXES

Bill Would Benefit S Corporations

Legislation introduced in the Senate last November by Sens. David Pryor, D-Ark., and John C. Danforth, R-Mo., would offer important new benefits to the 1.6 million small U.S. companies operating as S corporations.

S corporations differ from regular corporations in the way their income is taxed. The profits and losses of S corporations are passed through to the individual shareholders, and the income is subject to federal taxes only once, at the personal-income level.

In contrast, dividends from regular corporations are taxed twice—as profits to the companies and as dividends to their shareholders.

The S-corporation reform legislation, titled the Subchapter S Reform Act, would:

- Provide broader eligibility rules for S corporations and shareholders.
- Simplify complex rules for S corporations and shareholders and expand capital-formation techniques available to S corporations. The purpose would be to create a more level playing field with other types of corporations and partnerships. This would be accomplished by increasing the permissible number of shareholders for S corporations to 50 from 35 and by letting tax-exempt organizations and financial institutions be eligible shareholders.
- Help preserve family-owned businesses by permitting S-corporation owners to place their stock in various trust arrangements.

Among groups that are supporting the legislation are the U.S. Chamber of Commerce, the American Institute of Certified Public Accountants, and the American Bar Association.

Similar legislation is expected to be introduced in the House.

Julie L. Gackenbach, tax-policy director for the Chamber, says the bill responds to fundamental changes that have taken place in the small-business community since 1982—changes that hamper the competitiveness of S corporations. The changes occurred in financing options and in corporate relationships, which tend to be more complex and interlocking than they used to be.

—*Joan C. Szabo*

Managing Your Small Business

The power of packaging; safeguards against fly-by-night office suppliers; a two-way company pledge.

By Roberta Maynard

MARKETING

What A Difference A Package Makes

In the first eight months after the Mariani Packing Co., in San Jose, Calif., introduced new packages for its dried fruit products, sales increased about 20 percent. "We have a pretty pure measurement of the package's success because we didn't change the price and we did no promotion of the product," says Mark Bagley, Mariani's marketing vice president. "We invested our marketing funds in the packaging, and we are very, very pleased with the results."

Indeed, the company expects even more sales increases when its new packages are introduced in additional stores this year.

The new design was a result of a three-year effort by the small, family-owned company in collaboration with the graphic-design firm of Primo Angeli, Inc., in San Francisco.

"The most important factor in developing a new design for a business is a good partnership between the designer and the company," says Primo Angeli, the design firm's owner and creative director. From the beginning, he says, the business and the designer must have a clear understanding of the marketing objectives. The designer must then audit the condition of the market: Where will the product be? How does it sit with the competition? The goal is to develop a stronger message than the competition's, while at the same time not sacrificing the product's familiar brand identification.

Another necessary element is open-mindedness, particularly by the company that wants the design. If the client wants a red package but a competitor already "owns" the color red, the client has to be willing to go with something else and not cling to preferences, Angeli says. "A successful design cannot be a conglomeration of whims."

Before you roll out a new design, Angeli advises, get reaction to it, as Mariani did. "Use focus groups or quantitative analysis," he says, and "address any negatives. The expense of testing comes nothing close to the advertising that must be spent to overcome a design that's unsuccessful."

PHOTO: ©ROBERT HOLMGREN

Graphic designer *Primo Angeli displays his eye-catching new packages for Mariani Packing's dried fruit products.*

BANKING

How Are Your Bank's Cash-Management Services?

To get your bank to deliver high-quality cash-management services, you must develop good communication with the institution, says James Sagner of Sagner/Marks, a Chicago treasury management consulting firm—a company that deals not only in cash management but also in accounting, international transactions, and information systems. Sagner's recommendations:

■ Make sure your definition of quality matches the bank's. You may define quality as numerous special features and services, while the bank may define it as getting the work out on time without errors. If you expect customization and the bank delivers standardization, talk to your banker about your needs.

■ Understand that good quality costs. A bank with low-cost services is not as likely to deliver superior accuracy and to achieve timely processing as one that charges more.

■ Tell the bank's personnel about your likes and dislikes.

■ Measure, don't guess. Keep track of the bank's performance in terms of on-time delivery (of paper and electronic documents), transaction activities, error rates, etc.

■ Arrange a meeting to give the bank feedback on data you have collected, particularly if there are problems.

"In selecting a bank, a small business should opt for quality rather than low price," Sagner advises. Given the relatively low volume of transactions generated, he says, a small business is much better off paying for better-quality services and reducing the amount of time it may spend sorting out bank errors and delays.

PURCHASING

Fending Off "Paper Pirates"

Every company, regardless of size, must be alert to so-called paper pirates—unscrupulous office suppliers. The Council of Better Business Bureaus, in Arlington, Va., suggests these safeguards:

■ Never buy from a new supplier by telephone or mail until you have verified the company's reputation. Ask for and check references. Ask your local Better Business Bureau for a reliability report.

■ Do not accept cash-on-delivery shipments. Insist on open account billing so that you have some leverage if there is a problem with the merchandise.

■ Always use written purchase orders.

■ Designate purchasing agents for ordering, receiving, and paying for supplies.

■ Inform employees about your company's purchasing, receiving, invoicing, and payment systems.

■ Alert employees to office-supply schemes. Advise them not to give out information on makes and models of office equipment over the phone.

■ Watch out for cold calls asking for verification of the name of any employee likely to purchase supplies.

LEADERSHIP

Innovation Starts With High Goals

The Andrews Moving & Storage Co., based in Cleveland, has been in business for 86 years. Its ideas are far from old-fashioned, however, because the firm's managers and employees continually strive for improvement.

For example, four years ago, the company developed a short list of core values, had it printed on parchment, and displayed it around the workplace. It features customer satisfaction, integrity, recognition of employees, and the pursuit of growth.

Soon afterward, management formed a committee of workers and managers to address workplace issues in monthly meetings.

In response to a committee suggestion two years ago, Pete Kolp, the company's senior vice president and general manager, developed a two-part written pledge. In signing for the company, Thomas Marshall—the firm's president—and Kolp committed Andrews Moving & Storage to providing the highest level of customer service, supporting employees' efforts, and treating all employees equitably. Workers who signed the pledge agreed to provide the best possible service to customers, support fellow employees, contribute new ideas, learn new techniques, and be receptive to change.


PHOTO: BRUCE ZAKE

Innovators *Thomas Marshall, left, and Peter Kolp steer improvements at Andrews Moving & Storage.*

At a meeting of all employees, Kolp introduced the pledges and let each employee decide whether or not to sign them. All 225 employees wanted to participate, says Kolp, and at least 95 percent of them have chosen to post their pledges at their workstations. The truck owner-operators also display their signed pledges in their vehicles.

The pledge, voluntarily renewed and re-signed each January, fosters a sense of teamwork and reminds workers and managers about the company's ultimate goals. (For more on company mission statements, see "Put Your Purpose In Writing," on Page 61.)

Kolp and Marshall also began asking employees to evaluate their managers. The annual evaluations can be completed anonymously. Kolp then discusses them privately with each manager. The managers review Kolp's performance, too.

"Once you get the mind-set" of innovating, says Kolp, "it becomes second nature. By and large, everybody associated with this company wants to do better and be better, and that's achieved by evaluating what you do. We don't just want to be the best movers, but the best-run, the best-managed company we can be." ■

COST CONTAINMENT

Keeping Expenses Under Control

After several years of trimming costs, many companies are now looking for ways to keep them from creeping back up as business improves. Such steps often require a change in approach.

"Once costs have been reduced, companies have to do things differently," says James K. Hickel, project director for VPA Corp., a management consulting firm in Reston, Va. "I liken it to a diet: They may lose the extra cost, but without changing their habits, they'll gradually get back to the same situation."

Hickel recommends these basic cost-containment measures:

■ Tie explicit cost goals to your employee compensation system. These can be based on companywide, departmental, or individual achievement of goals.

■ Begin an ongoing communications program to keep employees thinking about cost control.

■ Develop a routine requiring managers to implement cost-reduction initiatives regularly. Hold meetings, for example, in which managers study ways to keep costs down in each department.

■ Link the line items of the budget to the goals of the company's strategic plan. Monitor results.

Hickel is author of *The Cost-Effective Organization: How to Create It. How to Maintain It.* The 215-page book, published by Glenbridge Publishing Ltd., is available in hardback for $19.95. ■

ADAPTABILITY

Why Small Looms Large In The Global Economy

John Naisbitt, the celebrated trend-spotter, says that the future will belong to small companies, and to big companies that have learned to act like small companies by breaking themselves up into entrepreneurial units.

In his new book, *The Global Paradox* (William Morrow & Co.), Naisbitt describes that paradox as one in which smaller players—be they nations or companies—will become more powerful as the world's economy grows.

In a vast, complex, and increasingly close-knit global economy, the premium will be on quickness and adaptability—traits much more common in small firms than in large ones.

"As a result," Naisbitt writes, "they can innovate faster, not just in products but in internal operations, to take advantage of the new technologies."

On Feb. 24, Naisbitt will talk to a nationwide audience of small-business people about the opportunities that are being created by the changes in the world economy. He will lead the first satellite seminar in the seven-part spring series offered by the Quality Learning Services Division of the U.S. Chamber of Commerce.

For information on that seminar and others in the series, call 1-800-835-4730 or (202) 463-5940.

—*Michael Barrier*

NB TIPS

What Makes Customers Tick?

Take Charge! is a self-instruction guide to managing customer relationships; its workbook format contains exercises and action plans. There is special emphasis on defusing angry customers and understanding the psychology of different types of behavior. Exercises help managers assess their own behavioral styles and understand how those styles affect relationships with customers. The 267-page softcover book, by Grace Major, a sales and service trainer, is available at bookstores or from the publisher, Sigma Books, for $27.95. Call 1-800-658-8893.

Entering Europe

Cracking The New European Markets, written by lawyer and consultant Timothy Harper and published by John Wiley & Sons, provides information on how deals are made in Europe, how to make the right contacts, and how to negotiate and market there. The book also offers insights into how Americans are viewed in Europe and contains dozens of stories about the successes and failures of American business people in European markets. The 261-page hardback is available at bookstores for $24.95. NB

Making It

Growing businesses share their experiences in creating and marketing new products and services.

Making A Community Safer

By Harriet Webster

When Cassie Farmer and Roberta Adams go to work each day, they head for one of Boston's most violent neighborhoods.

Farmer, 41, and Adams, 38, president and vice president respectively of New World Security Associates, Inc., work out of a crowded warren of offices tucked into the second story of a wood-frame building on Blue Hill Avenue in Boston's Mattapan section. Their business provides security services for credit unions, malls, health centers, and more than 2,500 units of subsidized housing. Security officers are also contracted for public events and for private parties.

Farmer, a former middle-school math teacher with an MBA, met Adams in 1988 when Farmer was hired to untangle financial problems at the small security company where Adams worked. Within two years, the owner decided to move on to new ventures, and Farmer and Adams bought the company.

"We pooled our funds and went for broke," Farmer says. To finance the endeavor, the two scraped together $20,000 in loans of $1,000 and $2,000 from friends, and New World Security was incorporated in May 1990.

The women inherited several accounts, 15 employees, and one vehicle. They won't disclose revenue figures, but they say annual revenue has increased fivefold and New World Security now employs 85.

The biggest factor in their growth, they say, was their ability to attract a substantial new client, the Massachusetts Housing Finance Agency (MHFA), a state contractor responsible for managing thousands of units of assisted housing—privately owned units subsidized by the state and the federal government. The MHFA was drawn to New World because the company is minority-owned, is based in the community it serves, and offers an armed security force—a service unavailable from many other security companies.

"They came to us with a very creative security patrol plan," says Ned Epstein, director of housing management for MHFA. "We've had very favorable feedback about their management techniques from tenants, owners, management agents, and the police."

Farmer says that to be competitive and effective, New World had to include an armed force. "Our market calls for special police officers," she explains. "These are police officers who are under limited jurisdiction, but they're governed by the

New World Security's *owners, Cassie Farmer and Roberta Adams, confer with employees Mike Benjamin, left, and Greg Williams at a property the firm protects.*

same rules that govern the Boston Police Department. They're trained by the Boston Police Academy, and they're licensed to arrest on MHFA properties." New World provides mobile patrols, foot patrols, and "site" workers, who are assigned to one locale.

Farmer and Adams spend their days meeting with clients, negotiating contracts, and consulting with their senior officers. But come evening, Farmer, who has completed the same training program required of the officers on the armed force, sometimes straps on a .38-caliber pistol and makes the rounds of properties secured by the company. "I just need to know that our officers are doing their job," she says.

Adams attributes much of New World's success to the partners' commitment to listen carefully to both their employees and their clients. "We had one site that was generating a lot of overtime," she notes, "and our people had good ideas about how to control it."

Similarly, when employees complained that their uniforms made them look more like maintenance workers than security guards, new uniforms were purchased.

Bob Keville, New World's chief of security services and a former military police officer, says Farmer and Adams "are very open-minded. They're outstanding to work for because they really value your input."

In what proved to be a pivotal move, New World established a 24-hour hot line, increasing accessibility, reducing response time, and enabling the company to make arrests that would have been impossible otherwise. While other firms route tenant complaints through the property manager, New World makes its hot-line number available to the tenants themselves. "It's used every night, and 99 percent of the calls we get are legitimate," Adams says.

Farmer and Adams both live within a 10-minute drive of many of the properties their company helps secure. "I'm a Bostonian," Adams says. "I was born and raised here, and a lot of my relatives lived in public housing, so I spent a lot of nights there. I care about the community and being in the security business. It's a way of giving back."

Adams and Farmer recently bought a communications system that will let them expand, and they have begun to seek business outside the Boston area. "We've seen some hard times, and we'll see some more," Farmer says. "But we're better-positioned now to deal with them." ■

Harriet Webster is a free-lance writer in Gloucester, Mass.

Marketers To The World

By Janet L. Willen

Yuri and Anna Radzievsky say they don't have to go far to find people to prepare marketing programs for clients around the world. In their New York City offices, Yuri says, you'll find people from "every major marketplace of the world and cultural marketplace of the United States."

Yuri is president and Anna is executive vice president of YAR Communications, Inc., which the husband-and-wife team owns. They call the company, whose name bears the couple's initials, "the voice of global business." Their firm has helped market goods and services in more than 100 countries as well as in ethnic communities in the United States.

When an American company marketed abroad in the past, Anna says, it used its English-language brochure or a translation, neither of which would be sufficient in a foreign marketplace. Instead, YAR tells companies that the language, color, and design of marketing pieces—whether print, film, or video—should be tailored to the country. "It matters which way you close your kimono . . . and what color you wear for mourning," Anna says.

When the couple emigrated from the Soviet Union about 20 years ago, they spoke little English. They registered in an English-language class but decided they could learn faster by watching movies. In their first venture to the cinema, they mistook the X rating and walked into the erotic feature "The Devil in Miss Jones." Yuri says that illustrates how the "amount of knowledge needed to communicate with different cultures is vast compared to what one can get from a language course."

PHOTO: ©ARNOLD ALDER

The Radzievskys *with one of their AT&T promotions.*

In 1975, Yuri and Anna formulated their idea for Euramerica, their first company. At that point, Yuri was marketing linguistic services and supervising the Russian department at a translation company where Anna free-lanced in the evenings. During the day, Anna was a researcher at a perfume company. Says Yuri: "We developed a concept of building a company that goes beyond translation . . . that specializes in communicating with different cultures."

The Radzievskys were unlikely entrepreneurs. They were both educated as engineers but had no training in business. They had saved only $2,000.

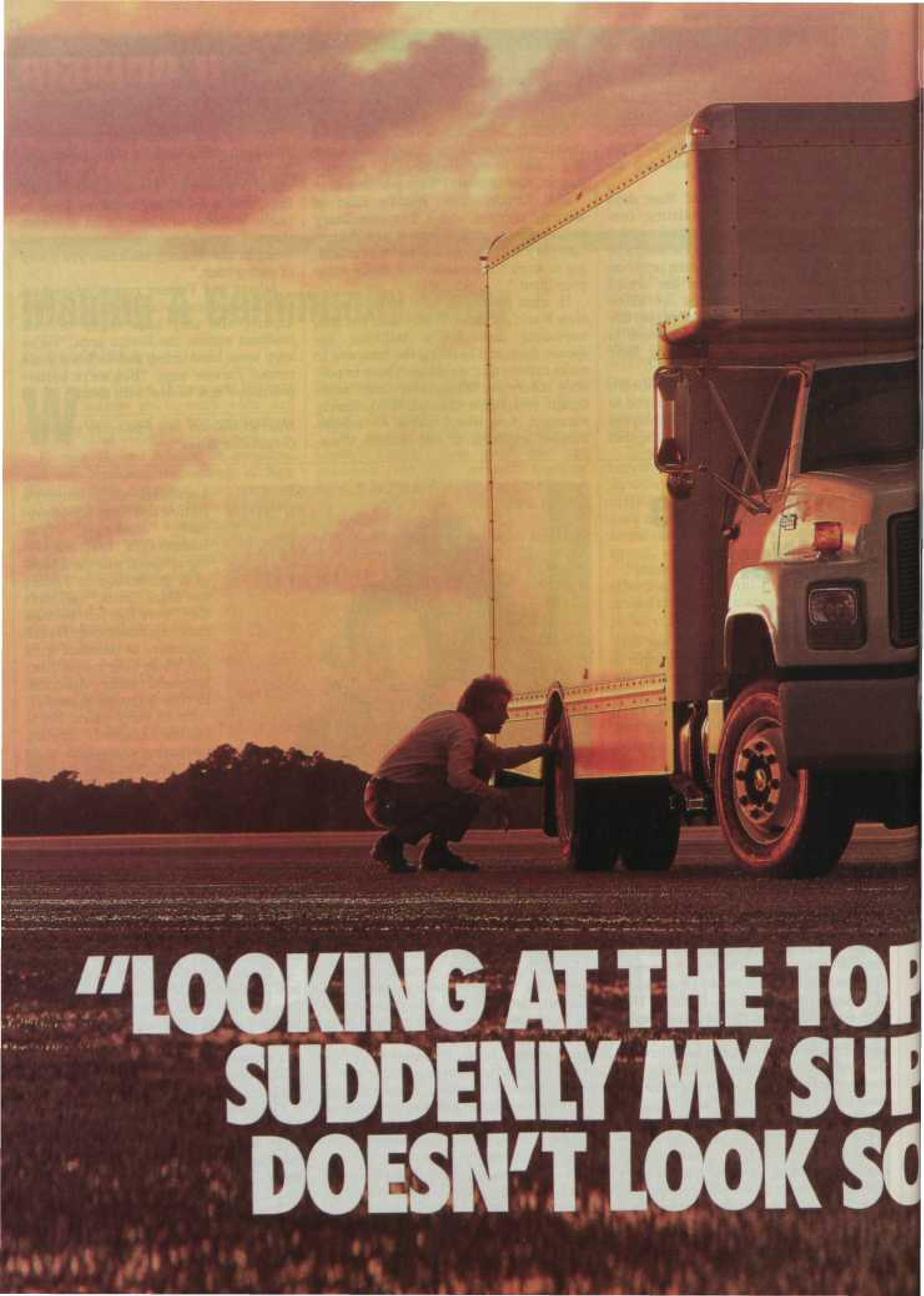
From its inception, Euramerica depended on people who had firsthand knowledge of a country's culture and language to prepare material. The Radzievskys' first marketing proposal was for a technical publication in French for Mack Truck. Yuri says they won the job because they commissioned French engineers as technical writers, while their competitors proposed using American foreign-language students.

In its early years, Euramerica adapted existing marketing campaigns to fit the foreign market. In 1981 the company began creating campaigns as well when it became a wholly owned subsidiary of the Ogilvy & Mather advertising agency; the couple continued to run the business. After Ogilvy & Mather changed hands in 1990, the Radzievskys tried to buy Euramerica back, but they were outbid. They then began YAR Communications.

The couple won't disclose annual sales, but YAR now has 70 employees and 2,000 free-lancers with expertise in various languages and cultures. Most of YAR's clients are U.S. corporations looking to sell abroad. For example, YAR is helping AT&T promote a line of business telephone systems in Russia.

The domestic ethnic marketplace is an area of potential growth for the company. "U.S. companies are accepting the fact that there are millions of consumers that speak languages other than English or Spanish," Yuri says.

"This nonmass market," he says, "is larger than many European countries." And he says he and his wife know "what makes this market tick." ■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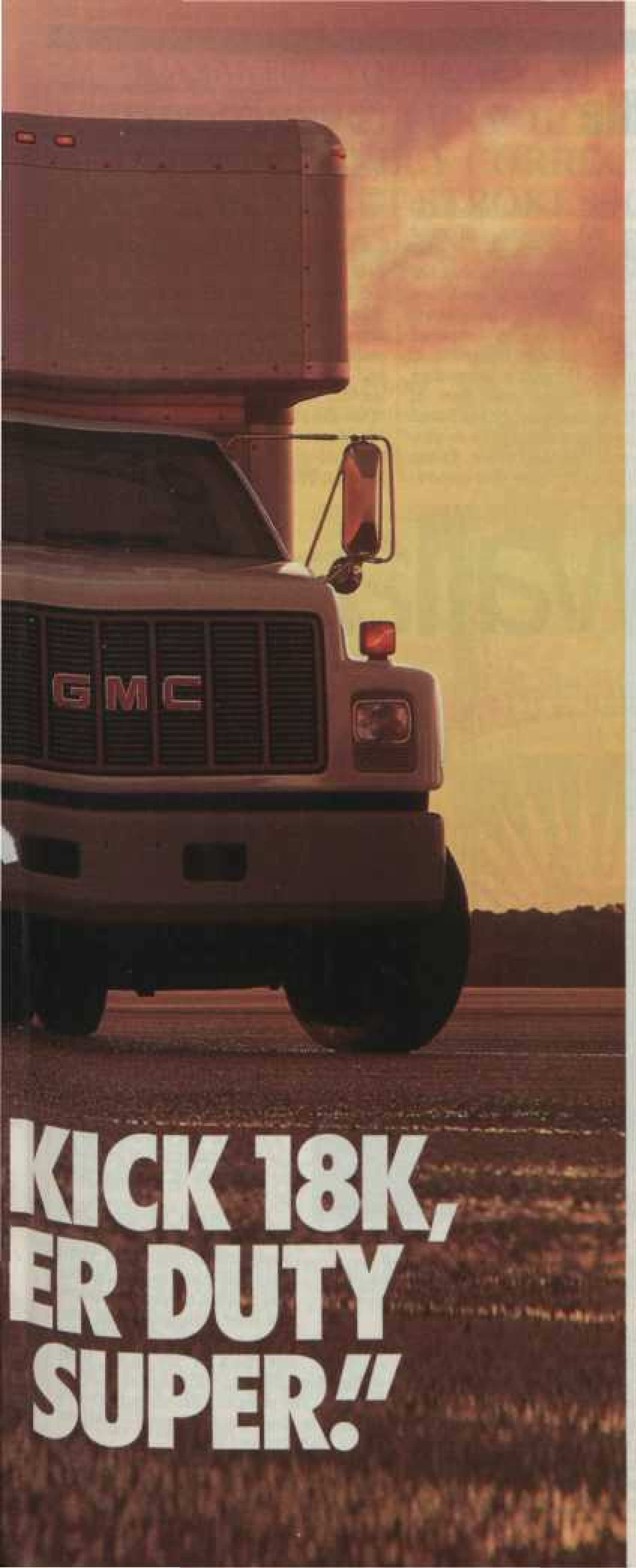

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Freshness By The Bottle

By Steven B. Kaufman

For a company that got its start in 1980 by purchasing a used, $225 juicer to sell fresh-squeezed orange juice to a few restaurants in Santa Cruz, Calif., Odwalla Inc. has come a long way.

Today, the maker of all-natural, fresh fruit and vegetable juices, based in nearby Davenport, garners nearly $13 million a year in sales and commands more than half of Northern California's market for fresh juice. Odwalla's products are sold in 1,400 natural-food stores, supermarkets, company cafeterias, and other locations, and the best is yet to come, the company's founder believes.

Odwalla recently shifted production to a newly refurbished, 65,000-square-foot plant in Dinuba, Calif., in the heart of the San Joaquin Valley. Now, Greg Steltenpohl, Odwalla's founder, chairman, and chief executive, is poised to expand throughout California and into the Pacific Northwest. The company went public in December, and Steltenpohl believes that it is on track to hit the $100 million mark in annual sales in about five years.

How can Steltenpohl, a 39-year-old Stanford University graduate with a degree in environmental science, fare so well in such a competitive market? To listen to him, at least initially, he's simply in the right place at the right time.

"People today are looking for higher quality in every area of their lives, and that includes what they drink," Steltenpohl says. "They're more discerning about the content, taste, and consistency of juice, and that is what is driving our success."

A book about businesses that could be started on a shoestring inspired Steltenpohl to start selling orange juice. Now Odwalla produces about 20 different juices at any time, with varieties depending on the season. They have no artificial ingredients or preservatives, and, unlike many competing products, they aren't pasteurized. That substantially shortens their shelf life but retains their enzymes and vitamins and what Steltenpohl likes to call "flavor notes"—the aroma and subtle sensations that tell the consumer that a product is fresh.

Named for a character in a song-poem called "Illistrum," which was composed and performed by the Art Ensemble of Chicago jazz group, Odwalla is succeeding because it relies on its own fleet of refrigerated trucks and highly motivated route salespeople to deliver juice to customers and maximize shelf space. It has also built a corporate culture that empowers its 190 employees by making them as autonomous as possible.

PHOTO: SAMUEL THALER

Discerning consumers, *says Greg Steltenpohl, founder and chairman of Odwalla Inc., are making his company a success.*

"If you can take wage earners and instill an entrepreneurial drive, that translates into much greater productivity," Steltenpohl says. "Essentially, we train people to be their own managers."

Even before Odwalla went public, Hambrecht & Quist Inc., a San Francisco investment-banking and venture-capital firm, invested several million dollars in it, nearly paying for its Dinuba plant.

Jean-Michel Valette, a Hambrecht & Quist principal, says Odwalla "has a very strong brand identity and a very strong following and direct control over its distribution system. In other words, it has a product that people want, and it can get it to them easily."

Equally impressed are many of Odwalla's customers, such as The Granary, a Pacific Grove, Calif., health-food store, where Odwalla's juices, one of a half-dozen lines carried by the store, account for 70 percent of beverage sales. "Odwalla looked long and hard to find out what consumers really want, then went out and gave it to them," says Todd Loomis, The Granary's owner.

The company's corporate culture has heightened its success by creating a sense of community that enhances productivity. Even the location of company headquarters plays a role here: The building sits a mere 75 yards from the Pacific Ocean, and some workers go surfing during their lunch breaks. Steltenpohl says the "surrounding energy" pays incalculable dividends.

Mostly, though, employees are motivated by ample opportunities to do what they really want to do. Many promotions occur when they identify new jobs in line with their own personal goals and persuade their superiors to let them create and fill the new positions.

Odwalla's push toward the $100 million mark means new challenges, and maintaining its unique culture is one of them, according to Dennis Moberg, a management professor at Northern California's Santa Clara University. "The bigger a company gets, the more natural it is to implement layers of bureaucracy," he says.

As Odwalla advances into markets well beyond its back yard, others note, the company will have to trim prices and market harder to capture the price-conscious mass consumer. It charges $1.50 to $2.10 for its 16-ounce containers, a bit more than competitors. But the odds appear to favor Odwalla. The company has already grown enough to test—and improve—Steltenpohl's management skills.

And, as Todd Loomis of The Granary points out, "A lot of consumers readily relate to a company like Odwalla." NB

Steven B. Kaufman is a free-lance writer in San Jose, Calif.

COVER STORY

Re-engineering Your Company

By Michael Barrier

Re-engineering. Say the word, and you can almost hear the buzz. It's one of those words that is somehow upbeat and menacing at the same time ("digital" had the same ring a few years ago). It seems to speak of a bright future that you'll miss if you don't move quickly—even though you're not sure what you're supposed to do.

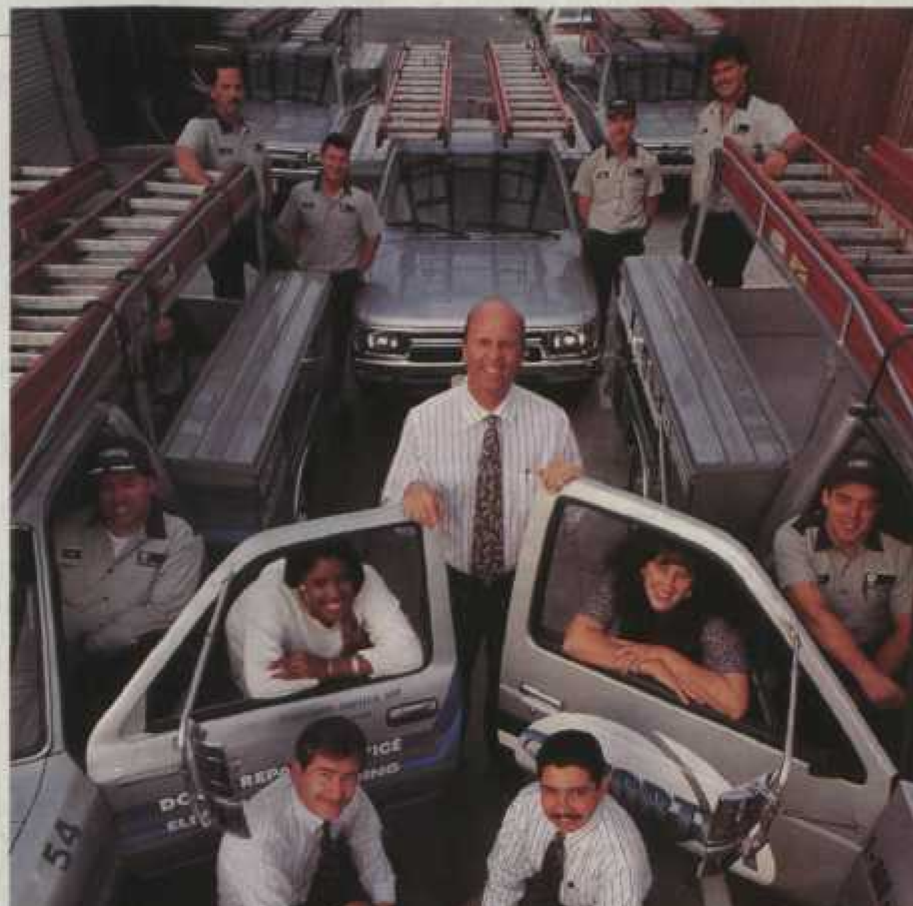
Given re-engineering's glamour and mystery, it's not surprising that the label has been applied to all sorts of business activities that could be better characterized in other ways. Some big companies, for example, like to say they have "re-engineered" when all they've done is fire some of their employees.

In fact, re-engineering has a reasonably simple and specific meaning—one that is applicable to small businesses as well as large. Like the man who was surprised to learn that he was speaking prose, many small firms may be surprised to learn that they're re-engineering now, or have already done so—maybe more than once. Re-engineering is simply a new take on what many businesses have always had to do if they wanted to survive: put themselves through radical change.

It was Michael Hammer who first drew wide attention to the concept of re-engineering, through a 1990 article in the *Harvard Business Review*. Last year, he and James Champy co-authored a book, *Reengineering the Corporation* (HarperBusiness), that has sold more than 300,000 copies in hardcover. Hammer, who once taught at the Massachusetts Institute of Technology, is now a consultant in Cambridge, Mass.; Champy heads CSC Index, a management consulting firm also based in Cambridge.

Re-engineering as a concept grew out of research that Hammer and Champy began doing together in the mid-1980s, Champy says, "focusing on the management of information" and the "power of cross-functional systems." They found in companies that had reshaped themselves drastically—and successfully—common threads that could be woven into a management concept.

"I never say that I invented re-engi-



PHOTOS: CYNTHIA LANZA

By fostering a team spirit *among his employees, Frank Fulkerson, center, transformed his company, Vortex Industries, which repairs and replaces warehouse doors. Employees have diverse responsibilities as well as specialties such as welding.*

It's like starting over—and it's not just for the big guys. Small companies may even enjoy special advantages when they use this powerful management tool.

neering," Hammer says. "What I say is that I may have discovered it, which is a rather different thing. In other words, companies have been doing it without a lot of clarity or understanding of what they were doing. My contribution may have been to sharpen their awareness and definition of what it is that's really going on."

Reengineering the Corporation draws on the experiences of large corporations, and the book's advice is directed at big companies, too, but in that respect it is already outdated. "I used to think that re-engineering didn't have much to say to small companies," Hammer says, "but I've been proven wrong. The principles of re-engineering are really independent of scale."

Those principles, as laid out by Hammer, are:

Focus on the customer. Everything a company does should start with the idea of adding value for the customer, through better products, lower costs, greater speed, and superior service. One of re-engineering's effects is to drive out practices that may be convenient or pleasant for an organization or the people who run it but have no meaning for the customer.

Organize around process. "Process means that we look beyond the walls of the organization chart," Hammer says, "and we look at the value-adding work that's going on across organizational units." Order fulfillment, for example, is a single process, but many companies chop it up and parcel it out among departments isolated from one another, for reasons that have nothing to do with serving the customer better.

Start with a clean sheet of paper. A company should approach re-engineering as if it were starting from scratch—as if the company did not exist but was going to be created in its ideal form. The idea is to scrutinize a company's practices not just to see if they can be improved but to see if there is any reason for those practices to exist.

PHOTO: WAYNE SORCE

Defense contractor *Greg Frisby turned to employees such as Dmytro Socko for help as he diversified his customer base.*

Those principles "are particularly critical for very large companies that have gotten caught up in huge amounts of bureaucratic morass and have lost sight of the customer," Hammer says. "However, the ceiling at which re-engineering kicks in has, for me, been getting lower and lower. I used to think that you had to be a $100 million business for re-engineering to be relevant, but I've learned that that's way off."

The hazard small firms face, Champy says, is that as they grow larger, "the tendency is to build more bureaucracy around what they do, to start to fragment the work and actually develop all the bad habits of large companies."

Hammer recalls a distribution company with about 60 employees that had "exactly the same fragmentation problems that I've seen in billion-dollar corporations. They had a production department that didn't talk to finance, that didn't talk to sales. Nobody had an overall picture of what was going on, except the boss, and he was never in the office; he was always out with customers."

There are other reasons for small firms to think seriously about re-engineering. Not only are many large companies going through re-engineering, but as they do, Hammer notes, "they're demanding far better performance from their suppliers," which are often smaller companies. Moreover, re-engineering often leaves large companies much more flexible—they can respond to the market more quickly and precisely than before. A large manufacturer that might once have considered some markets too small may be able to enter them profitably once it has re-engineered.

In other words, the small business that occupies a typical niche may find, as companies all around it re-engineer, that its niche is getting smaller and smaller. As Hammer puts it, "The big guys are learning how to act small; so the small guys have to learn to be even better."

Because it is so all-encompassing, re-engineering can be traumatic, even for large companies that re-engineer only a single process at a time. Small companies may find re-engineering less convulsive, Hammer says, because typically "the bureaucracy isn't so deeply in place and doesn't need as much extirpation as it does in a big company."

Small firms enjoy another advantage,

in what is typically their tighter connection to the customer. As Champy says, "When a customer calls and asks, 'Where's my order?' someone can stand up and shout, 'Where's the order?' and the whole place mobilizes, and they get the order out."

By contrast, he says, "in a big business, if someone stands up and says, 'Where's the order?' no one knows where the order is because the order is being processed in multiple pieces, in multiple places."

However applicable re-engineering may be to small firms, though, it remains a mysterious concept to many people who might benefit from awareness of what it involves. Says Hammer: "A lot of creative, innovative small-business people are probably out there doing it—without knowing it. People have said to me, 'I never knew I was doing re-engineering until I read your book. Now I know what I'm doing.' That, to me, is great."

What does a small business look like when it's going through re-engineering?

Among the companies that appear to have re-engineered in fact—if not in name—are some that have been designated Blue Chip Enterprises in the annual program sponsored by *Nation's Business*, the U.S. Chamber of Commerce, and Connecticut Mutual Life Insurance Co. The Blue Chip Enterprise Initiative recognizes companies that have surmounted challenges, and in some instances they have done so through a far-reaching overhaul of the kind that Hammer and Champy advocate.

At the request of *Nation's Business*, Hammer and Champy reviewed the case history of one such company, Vortex Industries of Costa Mesa, Calif. Vortex is a $10 million (sales), 130-employee, family-owned company that repairs and replaces warehouse doors; it was founded in 1937 by the grandfather of the current president, Frank Fulkerson.

Hammer said, after reading of Vortex's experiences: "This feels a lot to me like re-engineering. They were faced with a desperate situation; they were willing to think the unthinkable. To me, re-engineering is really radical work change—and they did that."

Champy, in a separate interview, concurred: "Vortex was on what I would call a burning platform. They had to make some pretty aggressive moves," and fortunately for the company, Fulkerson "clearly had the appetite for change."

Frank Fulkerson has not read *Reengineering the Corporation*, and he would not call what he did re-engineering. But, in fact, he re-engineered Vortex not once but twice in less than five years.

The First Re-engineering

In 1987, Fulkerson had been away from the company for most of the preceding three years, helping his wife establish an insurance agency. His business was being run by his partner at the time, a man 20 years his senior; Fulkerson had sold him a one-third interest in the business in 1978.

"It was a great partnership," Fulkerson says, "and probably still would be today if it hadn't been for just one area of disagreement." The partner wanted Vortex to be a highly centralized, top-down organization, and Fulkerson didn't. The company had three locations, but most of its people and equipment were bunched at one location near downtown Los Angeles—even though Vortex had customers spread across six counties. "We were trying to handle so much business at headquarters that we lost control of it," Fulkerson says.

In a descent into bureaucracy of the kind that Hammer and Champy warn against, Vortex had "stratified" itself, Fulkerson says: "Each person was stuck in his or her little cut-out job. The receptionist only answered the phone. The material people only ordered and received. The billing clerk only billed. They each felt like what they did was such a small part of the equation that they didn't make a difference."

Vortex's overhead—and its prices—were high, and sales were stagnant, but the partner not only wanted to keep the company pyramidal, Fulkerson says, but wanted to make it more so. Fulkerson decided to go in the opposite direction.

As an experiment, he says, he split off from headquarters one branch of the company in one county and rearranged the duties of everyone who worked there. Fulkerson created a new position, branch manager, and assigned to that one person functions—related to sales, purchasing, and dispatch, among other things—that had previously been divided among people in several rigid categories, at the central office and in the field. Another new position, office manager, likewise combined "pieces" of several functions, Fulkerson says.

The effect at that branch was to greatly reduce the segmentation of some of Vortex's fundamental processes. As a result, for instance, the branch manager was responsible not just for quoting the customer a price for the repair of a door but

PHOTO: STUART BARTHOLOMEW

At Sunrise Medical, *a manufacturer of medical equipment, CEO Richard Chandler combined quality-management techniques with a powerful customer focus.*

also for getting the service trucks there at the agreed-upon time.

Employees who actually repaired the doors "were permanently attached to that branch," Fulkerson says, and dealt only with customers who were in that county. "Since there were only five servicemen, they soon came to know and like each other *and* the customers."

To further encourage the branch's team spirit, Fulkerson initiated at the branch a profit-sharing plan that returned 25 percent of each month's profits to its employees. The branch's business went through the roof, and Fulkerson bought out his partner. "Using my experimental branch as a model," he says, he carved the company's entire territory into six independent branches, "plus a lightly staffed home office." There are now 10 branches in Southern California and one in Denver.

Though he instituted weekly "communication meetings" in every branch, the adjustment was hard at first, he says, because many employees "liked things just the way they were. It seemed like the people in the office didn't want new responsibilities or new challenges. The field guys didn't want to have to worry about quality or customer service; they just wanted to go out and fix the door."

Worse, Fulkerson's former partner started his own repair company in direct competition with Vortex. "That first year, after my partner left, was probably the most difficult year I've had," Fulkerson says, "because we were fighting him and fighting our own people, too."

But most of the employees who couldn't adapt to the change "were uncomfortable and left on their own," Fulkerson says; turnover was 75 percent in the first year. The employees who remained, and the new ones who were hired, responded to the change quite differently.

For instance, the reorganization meant that employees had to master several sets of skills; a team leader had to be technically adept, good at sales, and a good manager, too. The employees didn't feel burdened by these multiple responsibilities, Fulkerson says: "It turns out they enjoy doing all three of these things."

To support its workers, Vortex began doing lots of training, on and off its premises; it sent its employees who worked in the field, repairing doors, to seminars in sales and management, as well as customer service.

"You might think that's a little weird, sending a field guy to a management seminar," Fulkerson says, "but boy, it wakes them up, it makes them better field people, and they get a better picture of what we're trying to do here."

The Second Re-engineering

By the early '90s, Vortex was suffering not from internal rigidities but from the recession, which hit California especially hard (and has still not lost its grip on the state). With new commercial construction down sharply, companies that once might have been installing warehouse doors were now repairing them, in direct competition with Vortex.

To deal with the new crisis, Fulkerson says, "it was not so much the organization of the company that we changed, as our focus."

Even though the earlier changes had clearly given Vortex a strong customer focus, Fulkerson says that his company was, like other door companies, still concentrating most intently on the door itself: "Does it work? Does it lock? Is it safe? We decided to make what was for us a gigantic shift and focus on the customer."

To do that, he says, "I flipped the organization chart upside down. Instead of a pyramid with me at the top, I drew a snow-cone shape with me at the bottom. My new job is to help the staff at home office. Their job is to help the branch managers. Their job is to help the field

Some Rules For Re-engineering

PHOTO: ERICK FREEDMAN—BLACK STAR

James Champy, *co-author of* Reengineering the Corporation, *warns small firms not to confuse cost cutting with re-engineering.*

Nation's Business asked James Champy, co-author of *Reengineering the Corporation* (HarperBusiness), to offer some guidelines for small firms considering re-engineering. Here are his suggestions:

First, look at yourself. "It's very seldom that small companies sit back and observe how they operate," Champy says. "You're always catching up, you're always breathless, when you're managing a small company. So I say to a small business, step back at least for a moment, and contemplate how you operate."

Then, look at your market. "Small businesses seldom look ahead" to see what threats might be awaiting them, Champy says. "A lot of small businesses that would seem to be operating wonderfully will suddenly fall into a condition of decline because something happened that they couldn't predict."

A small company may find that its traditional business is being swallowed up by a huge new competitor that can more than match it in product choice and service. The question such a small firm should ask itself as it contemplates re-engineering is, Champy says: "How can you be so good at what you do and how you operate that you can change the basis of competition and protect your niche?"

Don't focus on cost reduction alone. If you do, Champy says, "you never get what I consider the brilliant result. All you do is cut off arms and legs—you get rid of capability, lots of times."

By focusing instead on the customer and how the company's processes can be organized to best serve the customer, he says, "you get customer service and quality up, you get cycle time down, and you get costs out automatically."

Use your small size as an asset. Small businesses "have a facility to change more quickly because they don't have to deal with all the issues of scale," Champy says. "They should take advantage of that facility to change quickly."

men. And their job is to, you guessed it, help the customers."

The managers who work in the home office now call themselves coaches; the branch managers are now team leaders. The employees in the field are now customer-service representatives. "These titles," Fulkerson says, "are much more appropriate to what we want to do."

Each service center gets a visit from a home office "coach" every week or two, Fulkerson says, and all the coaches gather for a strategy meeting every two weeks. Where the coaches can be especially helpful, he says, is by letting the people in the service centers know when some idea has already been tried—and didn't work. "Our main mission," he says, "is to share our knowledge, so they don't have to make all the same mistakes."

Even though sales growth had slowed, Fulkerson hired more people so that he could respond more quickly to customer needs. In a particularly sharp break with the prevailing emphasis on lean inventories and "just-in-time" deliveries, he built up an inventory of replacement doors. "In the service business," Fulkerson explains, "when somebody's door is hit by a vehicle, they want it working tomorrow—and we were typically waiting three to four weeks for a door. We finally thought, what if we just buy $10,000 worth of doors and keep them in stock?"

That way, he continues, "when a door breaks, and our price to replace it is $1,400, and somebody else's is $1,200, and we say we can do it tomorrow, and the other guy says it'll take three weeks, we get the job. We found that the extra cost of carrying the inventory was more than offset by the extra sales we got, just because we had it."

Vortex also began doing much more to tell its customers what it was doing and to find out what they thought of the work. Vortex technicians go through a checklist when they make a repair—and they leave a copy of the checklist with the customer, because, Fulkerson says, "a lot of times, they don't know what we did," only that the door is supposed to have been fixed.

Likewise, "we do a lot of job follow-up," he says. Team leaders and home-office coaches call and visit customers to make sure the work was done right.

One result of these changes: Vortex's sales growth had been slowing down, but in fiscal 1993 sales shot up again, rising from $6.9 million to $8.4 million, with an additional $1.5 million increase likely for the fiscal year that ends March 31.

As Michael Hammer and James Champy point out, Vortex's story is not a perfect specimen of re-engineering. For example, even though Fulkerson's goal has been to speed everything up—by providing estimates the same day they're requested, for example, and performing all repairs within 48 hours—he still has only what he admits are "rudimentary" measurements of its performance in those areas, although those measurements do show significant progress.

Small companies like Vortex typically lack the resources that a big company can bring to bear on re-engineering, and such a disparity in resources may show up in a paucity of measurements, or in other shortcomings. But re-engineering at a small company may differ from re-engineering at a big company in more fundamental ways.

There is, for one thing, the question of what role Total Quality Management might play in a company's re-engineering. Hammer and Champy see re-engineering as top-down and vision-driven, and they distinguish it in that way from TQM, which is, in most authorities' writings, characterized by employee empowerment and participation.

"You might be tempted to conclude that re-engineering and TQM are the same," Hammer says, "because they both talk about customers, and they both talk about processes and making them better. On the other hand, you might be tempted to conclude that re-engineering and TQM are the opposite, because re-engineering is about radical change, and TQM is about gradual, incremental change."

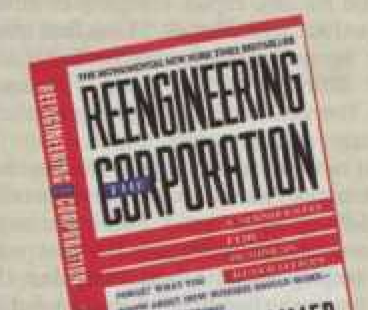
In fact, Hammer says, they're complementary: "I don't think you need one rather than the other. It's a bad idea to set them up in opposition."

Sometimes, he says, "you have a basically sound process. If that's the case, you want to improve it"—and TQM is the way to do it. But sometimes "your process is not sound, it's not nearly good enough. In which case it's a waste of time to try to improve it; what you need to do is discard it and start over."

And once the defective process has been replaced, he continues, "you have to go back to an incremental-improvement mode. The life of a business should be alternating between improving what you have and replacing what you have."

Something like that happened at Vortex, where Frank Fulkerson had to force his employees to accept a larger role in the business than they wanted to play. Now that they have assumed that larger role, he has cut back on his own involvement in the company. Vortex, as Hammer points out, "didn't have time for a quality

To Learn More



Books

The basic text is *Reengineering the Corporation*, by Michael Hammer and James Champy (HarperBusiness, $25). The book explains the principles of re-engineering and the need for it, and it offers case histories from four large corporations (or corporate divisions, like the Taco Bell arm of PepsiCo, Inc.) that have re-engineered. Its big-company focus limits the book's usefulness as a re-engineering tool for a small business, but reading it is the best way to understand what re-engineering is all about.

Reengineering: Leveraging the Power of Integrated Product Development, by V. Daniel Hunt (Omneo/Oliver Wight, $25), is a more technically oriented book and conceivably of more direct use to a small business—especially a small manufacturer—because Hunt deals at length with the techniques of Total Quality Management.

Seminars

Hammer conducts one-day seminars titled "Reengineering: The Leadership Perspective," which are designed for corporate executives who are leading re-engineering efforts.

The seminars are open to small-business people, too, but the price tag is high—$1,500 per person—and does not include hotel accommodations. The next three seminars will be on Feb. 8 in Boston, April 6 in Atlanta, and June 16 in Chicago. For more information, call Hammer & Co. at (617) 354-5555.

Hammer also conducts three-day seminars for lower-ranking corporate executives and staff members, titled "Reengineering: The Implementation Perspective." The cost is $2,200.

The U.S. Chamber of Commerce's Quality Learning Services Division offers satellite seminars devoted to quality-management techniques of the kind that can be useful tools for re-engineering. The spring seminar series begins Feb. 24. For information on the series, call 1-800-835-4730 or (202) 463-5940.

program. This company had to do things fast and different. Sometimes you can start with quality, but sometimes you have to go right to re-engineering."

As James Champy says, re-engineering "focuses a company on how to get big change fast," and it may be the only way that an elephantine organization can be light on its feet. At small companies, though, the line between re-engineering and TQM may be much less distinct.

This was true at Frisby Airborne Hydraulics, a 90-employee Freeport, N.Y., company that was, like Vortex, a 1993 Blue Chip designee. It went through re-engineering, or something very close to it, in the 1980s.

Frisby, a supplier of hydraulic subsystems and assemblies to aircraft manufacturers, was dependent on two defense contractors for more than 90 percent of its business. CEO Greg Frisby decided the company had to make radical changes to cushion the impact of the coming decline in military spending. The company not only had to adopt the focus on the customer that is critical to re-engineering, it also had to redefine who its customers were. It was so successful that by 1991, 75 percent of its production was for commercial customers.

Frisby was founded during World War II by Greg Frisby's father, Ray, who died last November at the age of 87. "What we did," Greg Frisby says, "was get back to the same entrepreneurial spirit that was there when he started the place, and the same reliance on our employees as empowered decision makers."

To enter commercial markets, he says, Frisby "needed to drop at least 25 percent of the cost out of a job to be competitive. To do that, you had to get very creative"—and with that in mind, he continues, the company asked its employees how it should proceed.

"We should have been doing it all along," he says, "but we'd lost sight of that." When the company did ask its employees for help, he says, "it was incredible, the number of suggestions and the wealth of information. They had been waiting for this moment."

Several mornings a week, the shop-floor employees involved in a particular project assembled to talk about how the work was done and whether there were better ways to do it. Such quality-management techniques, far from being foreign to a re-engineering effort, are "the only way you're going to drive those costs out," Frisby says.

Frisby did encounter some resistance, but on a smaller scale than at Vortex. "We had a plant manager who knew everyone's job better than the employees themselves," Frisby says. "He would basically tell them how to do their jobs, eliminating

PHOTO: ERICK FRIEDMAN—BLACK STAR

Author and consultant *Michael Hammer: "I used to think that re-engineering didn't have much to say to small companies, but I've been proven wrong."*

the thinking portion of their responsibilities. When you have one person trying to think for 80, and he's really not qualified to think for very many of them, it creates a bad environment."

That plant manager had to go, along with a few other people "who couldn't handle a participative environment," Frisby says, despite the training the company provided.

If TQM can serve a small firm well as a re-engineering tool, that may be because it can be a form of *de*-engineering. As Greg Frisby suggests, TQM can bring a company back toward being the kind of company it was when it first enjoyed success. In fact, James Champy says, "I see many small companies that already behave in a re-engineered mode"—even though they may not have gone through the wrenching change that re-engineering entails.

Through re-engineering, Champy says, "you take all the fragmented work that had been done in multiple pieces of the organization, and you learn how to synthesize those tasks back into units of work that a single person or a reasonably small team can do. And small businesses often work that way already."

Sometimes, a company that adopts TQM can find itself, in effect, re-engineering by accident because TQM triggers changes that turn out to be as far-reaching as any that might have flowed from a conscious effort at re-engineering. But when that happens, "I don't think it's all that much of an accident," Champy says.

"We sometimes describe re-engineering as 'big change fast,'" he continues. "Most companies still don't know how to do big change slow. So you don't see many accidents. I think there's something in the culture of an organization that allows [re-engineering] to happen, even piecemeal. There's something that causes questioning, and allows questioning to be OK. It's probably the people who run the company who make it clearly known that change is OK; in fact, they invite change."

That was the case at Sunrise Medical, a Torrance, Calif., manufacturer of wheelchairs and other medical equipment. There, Richard Chandler, the company's founder and CEO, was the catalyst for change. He has read about re-engineering, he says, "but I'm not even sure what it means. Everything I read under that heading describes something we've already done, so I'm not sure how much is new, really, in it."

Chandler, a former executive of Sara Lee Corp. and other companies, founded Sunrise in 1983 as something akin to a holding company for small, specialized manufacturers of medical equipment; 90 days after he went into business, he had used venture capital to acquire five such firms. Sunrise now has 14 operating divisions and more than 3,200 employees.

It was a much smaller company, however, in 1987—sales were barely above one-third the $319 million level they would reach in 1993—when Chandler made a trip to Japan. "The bad news was that they were miles ahead of us," he recalls. "The good news was that all of the ideas were accessible to anyone."

After his return, Chandler visited a number of U.S. companies with strong quality programs, including Milliken & Co. and Hewlett-Packard Co. Then, he continues, "we put together the Pursuit of Excellence program, which combines the

best elements of what I saw the best-managed companies doing."

For example, Sunrise has borrowed from Milliken the idea of "sharing rallies," to recognize people on the factory floor whose suggestions have improved factory operations. "You have to have some kind of a suggestion form and begin drawing on the creativity of everybody in the company," Chandler says. When an employee makes a suggestion, management has to acknowledge the suggestion within 24 hours and tell the employee what it will do about the suggestion within 72 hours.

The idea, as Chandler says, is to get everyone on the factory floor "to think like industrial engineers, about eliminating waste." Once that process is under way, he says, "it's going to keep benefiting you for years to come."

In its quality program, Sunrise has used measurements that go far beyond those employed by smaller companies such as Vortex. Sunrise learned, for example, that when medical-supply houses called to order a wheelchair, they were put on hold for an average of $4^1/_2$ minutes—"and 23 percent were hanging up," Chandler says. "Our business was growing about 25 percent a year, and we thought we were great," but by the time Sunrise had pushed the "hang-up rate" down to 2 percent, business was growing at *30* percent a year.

In the first four years of its quality program, Sunrise saved $20 million in inventory costs—money that it invested in heavily computerized new machinery that increased flexibility and permitted further increases in productivity. That increased productivity, in turn, "permits you to begin differentiating your products on value and features," Chandler says.

That is, features that might once have been expensive options can become standard; and the customer can get quick delivery even of a product that has been tailored to that individual's specifications.

For example, Sunrise's best-selling wheelchair comes in "104 quadrillion permutations," Chandler says. "It comes in one-inch increments of seat width, seat depth, back height," and in a dizzying variety of other options, permitting the chair to be fitted exactly to the individual user's needs. "And," he says, "we deliver it within two weeks."

The decision to move into a quality program "came down from on high," Chandler says, "but in a way that said, 'Here are some powerful ideas. Let's go look at Black & Decker and see what they're doing; let's go look at Harley-Davidson.' I think that was the key thing—the lessons come from other companies."

Sunrise is still acquiring companies—last year it purchased DeVilbiss Health

"You have to . . . begin drawing on the creativity of everybody in the company."
—Richard Chandler, CEO, Sunrise Medical

Care, a Pennsylvania-based manufacturer of home respiratory products—and bringing them under its quality umbrella, still without disruption. "What really seems to make the difference," Chandler says, "is when [manufacturing managers] tour our factories and talk to their counterparts. Then it begins to sink in.

"The ideas are very powerful," he continues, "and everybody sees the payoff so quickly that we don't have to do a lot of selling. All we have to do is have them visit one or two of our factories and attend a corporate conference, and they come away believers."

Not everyone goes along, of course; like Greg Frisby, Chandler has had to deal with some holdouts. "People who have muscled themselves to the top of a department care a lot about power and control," he says. "That's probably why they worked so hard to get there. To tell them that they've got to give it up is a real training challenge. But that's a transitional issue. If people can't adapt, the organization drives them out."

What has lifted Sunrise's exemplary quality program into the realm of re-engineering is the intense customer focus that has accompanied it. Sunrise seeks out feedback not just from its dealers but also from focus groups made up of some of its ultimate customers—which could be, depending on the product, people who use wheelchairs, directors of nursing homes, or physical therapists.

Using such focus-group input, for instance, Sunrise designed what Chandler calls the perfect dining-room table for use in nursing homes. It's a pedestal table (to provide room for wheelchairs) that includes such features as a raised lip to keep spills on the tabletop.

The resulting table came with a price tag of $450, or three times as much as the tables nursing-home operators had been buying. "We were a little worried," Chandler says, "but they said they wanted this, so we were going to give it to them. It's been the best-selling dining-room table in the industry ever since we introduced it."

This outreach to customers was "coincidental" in time with the manufacturing quality program, Chandler says, but separate from it. "It just happened that one of our product managers started hiring consumer focus-group facilitators and using these special rooms with two-way mirrors and videotaping."

But even though the customer-service and manufacturing-quality initiatives occurred separately, Chandler says, "they tied in beautifully" because the manufacturing changes meant that customer wishes could be translated into products that much more quickly.

In short, all the elements of re-engineering are present at Sunrise: There's an intense focus on the customer, the company is organized around translating customer wishes into high-quality products quickly, and Sunrise has been transformed radically since 1987. But all of this has occurred without the trauma that has accompanied re-engineering at many other firms.

Significantly, Sunrise did not go through re-engineering in response to a crisis. "If you had asked us in '87," Chandler says, "we would have said we were the leaders in customer service in our industry. And we thought we were; but, of course, everybody tends to believe their own propaganda in business. You tend to discount what your competitors are doing and believe your own press releases."

Among small and midsize companies, the best candidates for re-engineering may be those firms that are smart enough not to believe their own propaganda—the companies that are doing well but know they could be doing better. Such companies can enter re-engineering carefully, and they can reasonably hope to emerge from it faster, and with less pain, than many of their giant brethren.

And even when re-engineering does turn out to be a bit of a cold shower, its benefits can more than repay the momentary discomfort.

"We've got it really going," says Vortex Industries' Frank Fulkerson. "It's just thrilling to see people concentrating on getting to the job site at 8:30, and making the door come out right, and leaving the customer with a smile. Those are the things we concentrate on, and the money just happens.

"Sometimes," he says, "it almost seems as if the more fun you have, the more money you make." NB

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LEGISLATION

What's Ahead On Capitol Hill

Among key business issues facing Congress are the deficit, crime, the environment, and labor relations.

By Laura M. Litvan and David Warner

Following a winter recess that offered a brief respite after last fall's bruising battle over the North American Free Trade Agreement, members of the 103rd Congress have returned to Washington to face other contentious business issues.

Undoubtedly, the 1994 legislative session will be dominated by extensive debate and an anticipated vote late in the year on health reform. (See the story on Page 28.) In addition, the debate on deficit reduction will probably resume early in the legislative session. Lawmakers are also expected to focus on environmental issues, particularly water pollution and the protection of endangered species, as they reauthorize several environmental laws. Key labor-and-management issues could include a proposed increase in the minimum wage and a ban on the permanent replacement of striking workers.

Providing a backdrop to these and other issues will be next fall's elections. All House seats and one-third of the Senate seats will be on November ballots.

Congressional observers think political pressure will push Republicans, who are in the minority in both chambers, to try to reach consensus with moderate Democrats on some issues so the GOP lawmakers can demonstrate to voters that they aren't perpetuating gridlock.

Norman Ornstein, resident scholar at the American Enterprise Institute for Public Policy Research, in Washington, D.C., expects plenty of coalition building across party lines, like the bipartisan approach that achieved victory on the free-trade pact. "I just don't think they have the energy to go to the mat on every one of these issues," he says.

Other observers say that the congressional elections mean that local concerns will get even more emphasis than usual, as members try to ensure that their constituents are happy. On budget issues, for instance, lawmakers may guard the interests of their districts more carefully than ever. "In this setting, any budget reform always gets down to whose budget and whose reform," says Richard Scammon, director of the Elections Research Center, in Chevy Chase, Md.

In addition to health care, these are the major business issues that Congress is expected to address:

The Deficit

Thanks in part to Ross Perot and his many charts, the public continues to grow more concerned about the federal deficit. That concern is fueling the prospects for budget reform, including a measure to amend the Constitution to require a balanced federal budget. "The only way to improve the budget process permanently is to change the rules," says the U.S. Chamber of Commerce, a leading advocate of the budget amendment. And, the organization adds, the change should be structured so that "it could not be undermined by congressional meddling."

There is growing momentum behind the balanced-budget amendment because of the many failed efforts by lawmakers to curb deficit spending through legislative directives that proved easy to avoid. Supporters of the amendment are optimistic that the two-thirds approval needed in each house is attainable this year. After congressional approval, it would need ratification by 38 states to become effective.

Under the amendment most likely to be voted on, the annual federal budget would have to be balanced unless a three-fifths "supermajority" in the House and the Senate agreed to an exception. The same proportion of votes would be required to raise the ceiling on the federal debt.

In addition, any tax increases would require a constitutional majority in each house—more than half the full membership. Currently, such bills can be approved by a majority of members present to vote.

Crime

Public demands for strong anti-crime action by government will make this issue a major one this congressional session. The first step will be to develop a single plan from two widely divergent approaches taken by the Senate and the House last year. The Senate last fall

Runoff of pesticides *from farmland is expected to be a major focus in the debate over clean-water legislation.*

overwhelmingly passed a comprehensive measure to fight crime on several fronts. It calls for spending $22.3 billion to build more prisons and add 100,000 police officers. It would also expand use of the death penalty for federal crimes and provide for life imprisonment after three felonies under federal law.

The House's anti-crime effort is represented by separate bills of more limited scope. Some members want to enact tougher measures before a conference with the Senate so that it would not appear that the House had gone into the negotiations with a weak package in the face of the Senate's far-reaching blockbuster measure. Debate over tightening gun control will also be a priority.

The Environment

The Endangered Species Act got intense scrutiny during the dispute over the northern spotted owl in the Pacific Northwest. The law, enacted in 1973 to protect animals and plants from extinction, is up for reauthorization.

Business groups and conservative lobbyists hope for changes that will better take into account the rights of property owners whose land provides a home or potential habitat for an endangered species. Among other things, business wants landowners to be compensated when land use is infringed upon, and it wants more public input on the economic implications before a species is added to the endangered list.

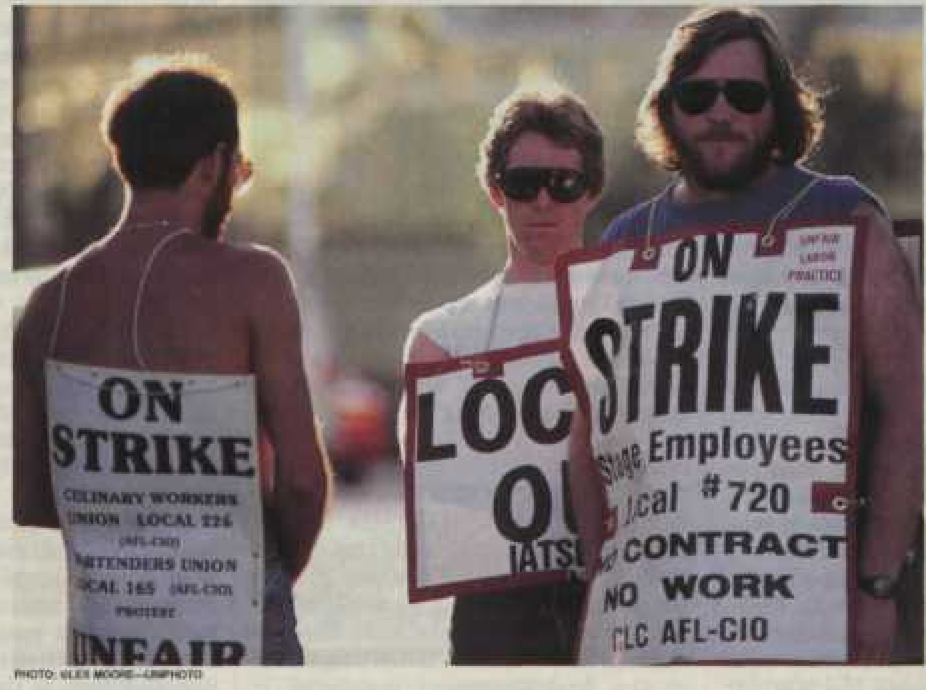

PHOTO: [illegible] MOORE—UNIPHOTO

Business interests are fighting *a bill that would ban the permanent replacement of workers striking over economic issues, such as wages.*

A fierce battle, however, could ensue with environmental groups, which want the law to focus more on the food chains that support an endangered species.

There are already several endangered-species bills circulating on Capitol Hill, including a measure that would protect ecosystems. That bill was introduced by Gerry E. Studds, D-Mass., chairman of the House Merchant Marine and Fisheries Committee.

The Clean Water Act is also up for reauthorization. First passed in 1972, the law limits the amount of pollutants discharged into surface waters by factories and municipal sewage-treatment plants. It also addresses protection of wetlands, which are vital habitats for many rare species. There is widespread agreement that the law has been successful in reducing direct discharges of pollution from industrial sites, and now much of the focus will shift to "nonpoint" pollution.

This pollution—runoff from farmlands, construction sites, and city streets—now accounts for 60 percent of violations of water-quality standards, according to the U.S. Environmental Protection Agency.

"Clearly, in terms of the types of pollution, remaining nonpoint pollution is least addressed," says Bob Adler, senior attorney for the Natural Resources Defense Council, an environmental group in Washington, D.C. Any effort to control this pollution will have its biggest impact on agriculture, he says, because most nonpoint pollution stems from use of pesticides on farmland.

Manufacturers, however, will also be affected by any changes in the law. In the Senate, a comprehensive Clean Water Act reauthorization bill would allow closer regulation of raw materials and manufacturing processes. The intent is to make sure that as manufacturers cut back on water pollution, they don't increase air and other types of pollution. Industry groups, however, are concerned that so much EPA oversight of their factory operations will restrict their flexibility and prevent their making changes to stay competitive.

The wetlands debate, like the issue of endangered species, will likely revolve around property rights. There are about 104 million acres of wetlands in the 48 contiguous states and 170 million more in Alaska, and landowners seeking to develop them must first embark on a lengthy permitting process.

Business will push for compensation to landowners who lose the right to develop their lands and also for "mitigation banks," which allow landowners to compensate someone who has restored or created wetlands elsewhere in return for the right to develop wetlands on their property.

While pending House legislation takes these views into account, other measures in both chambers would expand the present definition of wetlands and increase regulatory hurdles for developers.

Meanwhile, the Superfund law is also up for reauthorization. This legislation, designed to clean up the nation's most hazardous waste sites, may not reach a vote this year but will nevertheless receive considerable attention as interested groups work to build a consensus.

Among the issues to be debated will be the form of taxes that will be imposed on industry to help fund the program and whether future use of a hazardous-waste site should be considered when determining how far to go to clean it up.

The reauthorization could also present an opportunity to make changes that could benefit small businesses.

Under the law, businesses that helped pollute a hazardous-waste site are financially responsible for its cleanup, and they typically wind up paying hefty legal fees as they try to determine who is liable for what portion of a cleanup. A plan that would make it easier for companies to settle minor infractions has been gaining support among lawmakers.

Labor And Management

Organized labor is seeking to regain some of its Capitol Hill clout after the failure of its all-out drive to defeat the North American Free Trade Agreement.

The AFL-CIO is looking for early Senate action on a bill that would ban the permanent replacement of workers striking over economic issues, such as wages. Companies are already prohibited from permanently replacing strikers in cases

LEGISLATION

involving unfair labor practices. The measure to extend the ban passed the House and cleared the Senate Labor and Human Resources Committee in 1993.

Opponents of the legislation have threatened a filibuster. In an effort to prevent such a prolonged debate, supporters could introduce a compromise bill that would bar companies from hiring permanent replacements—but only for a certain number of days after the onset of a strike.

But business has made it clear that there can be no compromise: "The law already has put in certain restrictions and has given strikers certain rights of reinstatement," says Hal Coxson, an attorney with the law firm of Coleman, Coxson, Penello, Fogleman and Cowen in Washington, D.C., and a member of the U.S. Chamber of Commerce-led business coalition opposing the strike bill. "I don't think the business community is willing to concede any further incursions."

Reform of the Occupational Safety and Health Act will also be a top concern of organized labor, the AFL-CIO says. The House Education and Labor Committee is expected to hold a hearing early in the year on a bill sponsored by Rep. William D. Ford, D-Mich., that would impose new reporting and paperwork requirements on business and would increase fines for workplace health and safety violations. The Senate Labor and Human Resources Committee is expected to consider similar legislation.

House Republicans last August introduced their own measure, which would encourage employers through incentives to improve safety and health in the workplace. It would also prompt the Occupational Safety and Health Administration to help firms comply with the law.

Finally, an administration-backed plan to boost the minimum wage could reemerge. Labor Secretary Robert Reich has recommended increasing the minimum wage to as much as $4.75 an hour and then indexing it to inflation.

In late October, Reich said he would hold off on pressing the issue until Congress enacted a health-care reform plan, but that was before organized labor's big loss on NAFTA.

PHOTO: SED LALLO—THIRD COAST STOCK SOURCE

The Clinton administration *is expected to introduce a comprehensive plan to help dislocated workers learn the skills they need to perform in growing industries.*

Foreign Trade

The most pressing issue on the international trade front is GATT, the General Agreement on Tariffs and Trade. This multinational trade pact, which involves 116 countries, is geared toward lowering trade barriers worldwide. April 15 is the deadline for President Clinton's signature on the final agreement negotiated in Geneva. Then, for the treaty to take effect, Congress would have to approve it without changes.

Worker Training

The Clinton administration is expected to introduce a comprehensive plan to assist dislocated workers. The proposal is expected to include $3 billion in aid to laid-off workers, including one-stop career centers and training for those who need skills to move into growing fields.

Passage of NAFTA is expected to add to the momentum. The fate of workers who could be displaced as a result of the pact was a major issue during last fall's congressional debate. "Worker readjustment is the closest thing to a sure thing you get in Washington," says Ornstein of the American Enterprise Institute.

Also, the Senate is expected to move forward on the School-to-Work-Opportunities Act, which would provide $300 million in 1995 to help business-education partnerships develop apprenticeships for young people.

Paperwork Reduction

The Paperwork Reduction Act and the Regulatory Flexibility Act require federal agencies to consider a law's paperwork and regulatory burdens on business.

The Clinton administration may seek a consensus between two paperwork reauthorization bills. A measure sponsored by Sens. Sam Nunn, D-Ga., and Dale Bumpers, D-Ark., calls for specific yearly reductions in the amount of paperwork now required of companies.

Ohio Democratic Sen. John Glenn's bill calls for more money for the Office of Information and Regulatory Affairs, which oversees the paperwork act. The goal is to better manage the information already received by agencies and to find ways to cut paperwork.

Although the Nunn-Bumpers bill and a companion measure sponsored in the House by Rep. Norman Sisisky, D-Va., have bipartisan support, reauthorization of the paperwork act does not seem to be a priority for the 1994 Congress, according to supporters of the legislation. Business lobbyists and congressional staff members alike say lawmakers want to see how the executive order on regulatory review works before moving on a paperwork reauthorization bill.

Chances for passage of legislation to amend the Regulatory Flexibility Act appear more promising, however.

In his National Performance Review, Vice President Al Gore recommended having the Small Business Administration use the federal courts to enforce the Regulatory Flexibility Act, which requires federal agencies to consider alternative rules to ease a law's burden on small firms. A House bill that would apply judicial review to the regulatory act has been proposed by Rep. Thomas W. Ewing, R-Ill. A companion bill sponsored by Sen. Orrin G. Hatch of Utah was introduced last year in the Senate, but senators have not yet taken action on it.

Product Liability

Congress will consider legislation written to help manufacturers and sellers accused of providing faulty products avoid costly litigation.

The Senate Commerce Committee in November approved a product-liability measure designed to encourage arbitration. The bill would allow courts to penalize a party that refuses to reach an out-of-court settlement and then loses the case. But if approved by the full Senate, the measure faces an uphill battle in the House, where it could get bottled up in the Judiciary Committee. NB

RETAILING

When Shoplifters Ask For Refunds

Merchants who don't have a strong policy on accepting returned merchandise could become victims of fraud.

By Joe Dacy II

Richard is a 30-year-old career criminal who, before his latest incarceration in Texas, supported a $100-a-day heroin habit by tricking businesses into paying him for their own merchandise.

During a stay in El Paso, he says, he and a friend stole small items from retailers and then returned the merchandise for cash refunds. The stores didn't ask them for receipts.

"We made $400 to $500 a day," Richard says.

According to the Ernst & Young accounting firm's January 1993 report on loss prevention, a growing number of shoplifters are taking advantage of liberal return policies to elicit refunds for stolen merchandise.

"They are turning our returns desks into fencing operations," Jeffrey Smith, loss-prevention director for Illinois-based Jack's Discount Stores, told Ernst & Young.

In another type of scam, Smith said, "shoplifters will come into a store, pick up two of the same items, and buy only one of them. Then they will come back with the receipt and return the stolen item for cash. We end up buying back stolen merchandise."

"Shrinkage"—a retail-industry term that encompasses shoplifting, employee pilfering, and return of merchandise that was never paid for—is equal to 1.81 percent of annual sales, according to a 1991 Ernst & Young study of national retail chains.

Unscrupulous people like Richard take advantage of a company's zeal for customer service. To gain the confidence of store employees, for example, Richard often dressed as a contractor, wearing coveralls with lots of pockets. He brought along his Texas contractor's license. He had once done legitimate work.

Upon entering a store, usually during a busy part of the day, he would do what all shoppers do: shop. "Always pick something up first; get something in your hands," he says. He felt that he looked less suspicious if he carried an "intended purchase."

Richard typically headed for small tools priced at about $25. There, he would discard the item he had carried through the store and pick out an item for return.

Once he had the merchandise in hand, Richard would discreetly crush or dent the box to give the item a handled look. Then he would go to the customer-service desk or the nearest cash register to request a refund. If necessary, he'd give a false ID and phone number and present his contractor's license.

Richard rarely varied his routine, which eventually led to his arrest. He attempted one too many bogus returns at one store, where a clerk called the police.

Retailers can avoid being taken by scam artists like Richard by following relatively simple steps when accepting returned merchandise. Here is a checklist recommended by security experts:

- Require the customer to fill out a return form, including full name, address, telephone number, the reason for the return, and a signature. Take the form and the merchandise into your possession.
- Ask who bought the item. If the customer claims to have made the purchase, require a receipt. If someone else purchased the item, request one anyway.
- Require identification from the customer. Accept only a valid picture ID issued by a government agency, such as a driver's license or a military ID. Don't accept expired identification, Social Security cards, credit cards, or business cards.
- Match the photo on the ID with the customer. Check specific facial features, not just hair style or general appearance.
- Compare the information on the ID with the information on the return form. Note any discrepancies, and ask the customer about them. If the address is different, require at least one form of identification with the new address.
- If a manager must approve all returns, make sure that happens. Richard often pressed harried cashiers to short-circuit the process.
- Know your merchandise. Make sure the returned item came from your store.
- Save the return forms and study them to look for patterns. Be wary of anyone who makes frequent returns.
- Consider paying for returns—especially costly ones—by check. If a customer resists a check, be suspicious.

The more things that turn up "wrong" on the checklist, the more likely your customer is a thief. If you suspect fraud, call the police. Richard finally got caught because a persistent clerk followed store policy. ■

ILLUSTRATION: MANGOOK LEE

Joe Dacy II is a sheriff's deputy and a free-lance writer in Burleson, Texas.

HEALTH-REFORM WATCH

Questions, Answers On Health-Care Plans

Our readers ask how the Clinton administration's plan would affect them and their businesses.

By Roger Thompson

Our November cover story on health-care reform invited readers to send us questions about the potential impact of reform on their small companies. Most of the letters we received dealt specifically with the effects of President Clinton's plan:

Q: We are a sole proprietor and have some employees on a fixed salary and some on salary plus bonus. To calculate the average wage for the purpose of determining eligibility for a federal subsidy, would I count bonuses as salary?

Also, would the owner's profit at the end of the year count as part of total payroll?

C.B. Metcalf Jr.
C.B. Metcalf Co.
Gonzalez, Fla.

A: Yes, under the Clinton plan, bonuses count as salary for the purpose of calculating your average wage. The Internal Revenue Service says that anything considered to be a taxable perk must be counted as payroll.

The owner's profit would also have to be included in the average wage calculation whenever that money is subject to the FICA or self-employment federal payroll taxes. A distribution of funds that the IRS considers nonwage is not counted as payroll.

Q: We send out about 200 W-2s and have a total payroll of about $1.25 million. Only 25 to 30 workers are full-time, year-round employees. The rest are seasonal, working three to six months in the summer. Most seasonal employees are 16 to 24 years old and work more than 30 hours a week. More than half hold a second job. More than half are still attending high school or college.

How do we calculate our health-insurance costs for seasonal employees? How do we calculate costs for those holding two jobs?

Janet Smith
Teton Pines Resort and Country Club
Jackson, Wyo.

A: First, you would have no obligation under the Clinton plan to buy health insurance for part-timers who work fewer than 40 hours a month.

Those who work more than 40 hours a month but fewer than 120 would be considered part-time, and you would have to contribute toward their health-insurance costs, with two exceptions:

1. You would have no obligation to pay for any full-time student under the age of 24 working part time or full time.
2. You would not have to pay for any person under 18, regardless of student status. Under the Clinton plan, these young people would be covered by their parents' health plans.

To calculate your monthly payment to the regional health alliance, you would have to figure out how many full-time-equivalent workers you had among your part-time staff, total the hours for the eligible part-timers, and divide by 120 hours. This would give you the number of full-time-equivalent workers for the month. Because you would be paying for only one month at a time, you would send the health alliance a check for one-twelfth of the cost of the health plans these workers had picked.

For those holding two jobs, you would be responsible for paying only your proportionate share of the hours put in at your company.

Q: We have 30 full-time employees; our payroll is $1.5 million a year, a $50,000 average per employee. Our present health plan costs about $40,000 a year. As I understand the president's plan, our premiums would go to $118,500 (7.9 percent of $1.5 million). Am I correct in believing that the president's plan would cost me $78,500 more in premiums?

Name Withheld By Request
Grandview, Mo.

A: Probably not. Here's why: Under the Clinton plan, the employer would pay a fixed amount per worker. To calculate your costs, you would determine whether your workers were buying a policy for an individual, a couple, or a family.

For each single worker, you would pay $1,546 a year. For each married worker with no children, you would pay $2,125. For those—whether married or single—who have children, you would pay $2,479. (These figures are preliminary national averages and would be calculated later for each health alliance.)

Now, let's assume you have 12 single workers and 18 workers with children. Your annual tab would be $18,552 for the singles and $44,622 for the rest. That comes to $63,174, or $23,174 more than you are now paying, not $78,500.

ILLUSTRATION: CHRISTOPHER ZACHAROW—SIS

The 7.9 percent figure is useful only for calculating the maximum amount you may have to pay as a percentage of payroll. But, as in your case, it is often far higher than actual costs when the average wage exceeds $30,000 a year.

Q: We pay 80 percent of the health-insurance costs for our 50 employees. They pay for their dependents. If we had to pay 80 percent of the cost of insurance for just one-half of our employees' families, our insurance costs would more than double. Who pays for dependents?

Randall G. Long
Long Wholesale Distributors Inc.
Corinth, Miss.

A: You would pay for dependents. But you wouldn't be paying 80 percent. Under the Clinton plan, employers would actually pay between 55 percent and 64 percent of the projected cost for workers with dependents.

When the administration says that employers would pay 80 percent of their workers' health costs, they are talking about the sum total of all employer

payments. But at the individual employer level, the only workers for whom employers would pay 80 percent are single employees.

For workers who are married and/or have children, employers would pay a fixed amount regardless of whether both spouses work or how many children they have.

The flat rate for workers with children would be the same for married or single parents, $2,479 a year. That is 57 percent of the projected $4,360 cost of a family health plan and 64 percent of the cost of a single-parent family plan of $3,893. The flat rate for a married worker with no children would be $2,125, which is 55 percent of the projected health-plan cost of $3,865.

Q: I manage a temporary-help company with four offices in South Carolina. We employ 13 full-time persons to run these offices, and we pay for their health insurance. A majority of our temporary workers are employed on a daily basis only. Many may not be back the following day. Many have no other source of income.

For 1993, we would write more than 4,000 W-2s and have a payroll of about $2 million, with the average worker making minimum wage and working less than 30 hours per week.

How would the Clinton plan affect us? It sounds as if it would put us out of business.

Richard H. Fields
Labor Finders
Columbia, S.C.

A: You would not be required to make health-insurance payments for any temp who works less than 40 hours a month. Nor would you be required to pay for full-time students under the age of 24, or for those under age 18 regardless of student status. Parents cover these two groups.

To calculate what you would owe for those you can't exclude, you would convert your part-time temps to full-time equivalents. Here's how: Add all of their hours for a month and divide the total by 120. This gives you the number of full-time-equivalent employees for whom you would have to send a monthly check to a regional health alliance.

In calculating your actual costs, remember to use the flat-rate figures cited above for couples and employees with children. Take one-twelfth of the annual cost to figure your monthly payment.

Q: If I read the president's proposal correctly, as a self-employed person, I would be required to purchase health insurance even though I am already covered as a dependent on my wife's plan. If this is correct, it seems to be a tax on me to support the program since my family and I would reap no benefits from participating.

Howard M. Phillips
Fairfield, N.J.

A: Yes, you would have to buy health insurance under the president's plan. Because your wife works and you have children, you would pay the employer's flat rate for a family plan, or $2,479. (Your wife's employer would pay the same amount.)

But if the flat rate exceeds 7.9 percent of your income (the limit on what employers would be required to pay), you would pay the lesser amount.

In addition, you and your wife would have to pay the family share of the plan you choose, 20 percent of an average-cost plan. That comes to $872 for a family plan estimated to cost $4,360 a year.

Partially offsetting your new expense would be a new tax break. As an employer, you could deduct from taxable income the full $2,479, plus the $872 if you paid the full family share. Under current law, self-employed workers can deduct only 25 percent of their health-insurance costs.

Q: In a situation where a company has paid 100 percent of the employees' health-insurance premium, would the proposed plan mandate that the company change its policy and require the employee to contribute a percentage toward the premium?

Mark Minniti
Winter Welding & Machine Corp.
York, Pa.

A: The president's plan would permit employers to pay 100 percent of their workers' health-insurance costs. And the employer would be able to deduct the full amount as a business expense.

Q: We are a small subcontracting firm that employs eight salaried workers and about 11 unionized employees working at job sites. We contribute a considerable amount of money to the union as fringe benefits. That money covers their insurance plan.

Would the union method of paying for the members' health insurance be terminated under the Clinton plan?

Sidney Sherman
Sherman & Chaplin Inc.
Irvington, N.J.

A: That depends. If the union's plan is affiliated with a Taft-Hartley multi-employer plan covering more than 5,000 workers, and if that plan requests designation as a corporate health alliance, then you would continue to pay the union.

If the union is not covered by a Taft-Hartley multiemployer plan, then the unionized employees would pick their health coverage from the regional health alliance, and you would pay the alliance.

Unions, however, would have the option under the president's plan to serve as middlemen. They could contract with the regional health alliance to receive your payments and forward the money to the alliance. NB

Need Some Answers?

Send us your questions about how the major health-reform proposals would affect your company. In future issues, we will answer as many as we can. Address your questions to: *Nation's Business,* Health Reform Questions, 1615 H Street, N.W., Washington, D.C. 20062-2000.

INSURANCE

Finding The Best Auto Coverage

Keep in mind that the lowest price isn't necessarily the best value.

By John S. DeMott

With 180 plumbing, heating, and air-conditioning service vans scurrying about the Washington, D.C., metropolitan area, Warner Corp. has more than a casual interest in getting the best auto-insurance coverage for its money.

To help it toward that end, the company puts its 220 driver-mechanics through monthly auto-safety courses at its 16 service branches. It also checks on job applicants' driving records and requires them to submit to drug testing.

These steps, says Liz Trotter, manager of Warner's human-resources department and daughter of CEO Tom Warner, played a big role in holding the company's commercial auto-insurance premium to about $15,000 a month for both 1992 and 1993, slightly less than it was at the beginning of the 1990s. The company buys its coverage from Aetna Life & Casualty, of Hartford, Conn.

Prevention—taking vigorous measures to reduce auto-insurance claims before they happen—is the first lesson any business can learn about holding auto-insurance rates at bay. Says Trotter: "The insurance companies look at what you do to prevent losses, so we're always building on our safety program."

The company's employees appreciate the safety program, too. According to Trotter, "the drivers like to brush up. They don't want to have an accident."

The second lesson is knowing what your business auto policy covers and what it doesn't cover. This can be tricky, says John A. "Chappy" Chapman Jr. of the Heffron, Ingle, McDowell & Cooper agency in Charleston, S.C. What a policy covers is designated on the policy declaration page by numerical Symbols 1 through 9. Symbol 1 coverage applies to cars that the business owns, rents, or leases, and any other cars that could be cited in a claim. Covered, for example, would be an employee using a personal car on company business who got into an accident that led to a claim against the employer.

Symbol 1 extends protection to nearly all liability exposures a small-business owner could face. As the symbol numbers get higher, coverage narrows. Symbol 2, for example, covers only those cars owned by the policyholder, not those rented, leased, or owned by employees.

Symbol 3 is similar, but it covers only private passenger cars; if a business owner adds a truck, for instance, it won't be covered unless an endorsement for it is made part of the policy.

Bill Groves, a senior vice president of the CIMA Cos., in Alexandria, Va., put together a package of coverages for Warner that gives the company what it needs but doesn't force it to pay for coverage it doesn't need or that is not cost-effective.

When it comes to auto-accident medical coverage, Symbol 2 protection would cover all trucks and any other vehicles in Warner's fleet, but it's probably not necessary. The reason, Groves says, is that workers' comp would cover a worker's medical costs and that the employees behind the wheels of those trucks would be on company business almost all the time.

If a Warner vehicle hits another vehicle, Warner's insurance would pay for the damage to the other vehicle. But Warner pays out of pocket for damage to its truck. By arranging coverage so Warner self-insures in such instances, Groves estimates, the company's insurance premium is reduced by $47,000 annually.

Most of the coverage-level provisions used in the industry are set by the Insurance Services Office, an industry group in New York City, in consultation with major insurers. They're poured into a "simplified-language" form called the business auto policy, or BAP, which has been available since 1978 and was last revised in June 1992.

Most insurers use the BAP form as a basis for coverage. Some stick to it literally; others elaborate on it.

As to what coverage you should have, this is what agents recommend for small-business buyers of auto insurance:

PHOTO: T. MICHAEL KEZA

Safety first: *Warner Corp. CEO Tom Warner and Liz Trotter, human-resources manager of the plumbing and heating firm, with technician Jim Hess.*

■ Buy insurance to cover the risks you face in your business every day. Do not buy insurance just to cover state-mandated minimums at the lowest price.

■ Buy Symbol 1 liability coverage at all times. If for some reason your carrier won't sell it to you, shop for another carrier. Although rates vary widely throughout the country—from about $1,000 per vehicle in Washington, D.C., to as much as $3,200 per vehicle in Philadelphia—in the long run the more comprehensive coverage will wind up costing less than a cheaper policy that falls short when you need it.

If the price for Symbol 1 liability protection is too high, make up for it by trimming back on property-damage protection by raising deductibles. Says Chapman: "If you lose an entire vehicle,

you know what your loss is going to be, a finite value. But you get into liability, and you don't really know."

■ If cars are owned and insured in the company's name (most vehicles used in business are, for tax purposes), be aware that you might not have auto-insurance coverage if you rent or borrow a car in your name and not your company's. To avoid this problem, have a "drive-other-car" endorsement added to the business auto policy. This effectively gives personal automobile-type coverage when the business owner is driving someone else's car.

■ Consider saving through the "third-party deductible." If a Warner truck damages someone else's vehicle, Warner's insurer will pay for the damage and then bill Warner up to $1,000 for repairs. That reduces Warner's liability premium, Groves estimates, by $20,000 to $30,000 a year—far more than is actually paid back to the insurer.

■ Exclusions—what insurers won't cover—are routinely written into most commercial policies, but they're just cropping up in auto-insurance contracts. The "pollution exclusion," for example, says policies will not cover any liability claim arising from the hauling of hazardous materials.

> "Insurance companies look at what you do to prevent losses, so we're always building on our safety program."
>
> —Liz Trotter, Human-Resources Manager, Warner Corp.

Under that exception, the owner of a fuel-oil truck that spilled its cargo while making deliveries in a residential neighborhood would not be covered against liability claims for property damage under normal commercial auto policies. Such coverage would have to be obtained from a specialty insurer.

Wherever possible, agents say, a business's commercial general liability policy and auto policy should be with the same company. The reason is to avoid problems that can be caused by conflicting definitions, such as the meaning of "handling for transportation."

For example, if a customer in an appliance store is injured by a refrigerator door, the store's general liability policy will cover a liability claim. But if that refrigerator is moved by a hired crew to the buyer's house and is dropped to the floor and damages tile, that damage is—or should be—covered by the hauler's business auto policy.

But what happens if, by one insurer's definition, the refrigerator was legally "delivered" as soon as it was merely inside the buyer's house and, by another's, was not delivered until it was resting safely in the kitchen?

It's best, agents say, to avoid such ambiguity by having all your liability contracts—and definitions—drawn by the same insurer.

As for Tom Warner and Liz Trotter, they believe they have found ways to control their auto-insurance costs and hope to keep them down. With advice from agents and their own common sense, they intend to do that well into the future. Says Trotter: "Our premiums have been going down steadily. Maybe they'll be even less this year." NB

To order reprints of this article, see Page 72.

MANAGING

A Computerized Hiring Search

Résumé banks help small companies lacking personnel departments find job candidates and save time and money.

By Janine S. Pouliot

PHOTO: ©TOM SOBOLIK—BLACK STAR

Robert Maresco *used a résumé bank to hire an employee for his Nyack, N.Y., advertising firm.*

When Robert Maresco needed an additional copywriter for his eight-person advertising firm, he didn't have time to advertise the opening and then sift through dozens of résumés. Instead, he contacted a résumé data-base service and found a suitable candidate painlessly.

"I just gave the parameters of the job to the résumé bank, and the next day we got suggestions for candidates," says Maresco, president and founder of Hudson Valley Advertising Associates, in Nyack, N.Y. "What at one time took days now takes only minutes."

Since they began in the mid-'80s, résumé banks have helped save time and money for companies like Maresco's that are too small to maintain a personnel department.

At the moment, it is difficult to determine how many résumé banks there are. There is no national organization that tracks their growth or provides the self-monitoring that is typical of other service industries.

Important tools of résumé banks are optical scanners that read and store résumés, as well as accompanying software that retrieves the résumés according to job description.

When a company calls with an opening, résumé banks quickly supply a brief description of people who appear to be appropriate for the job. The client firm may then request a complete résumé on the candidates it wants to pursue. The interested employer is responsible for contacting the candidates and making final hiring decisions.

Job-related phrases like "cost accounting" and "cash-flow analysis" are used to conduct searches, replacing old résumé standbys such as "coordinated" and "headed up."

To facilitate the matching process, many résumé banks ask people to fill out detailed forms. Companies using the service are given pointers on providing precise job-skill descriptions.

"Based on what one client gave us, we came up with 33 possible names," says Alan Wimer, managing director and founder of Career Database, in Provincetown, Mass. "We helped them narrow the criteria to arrive at three probable candidates."

Fees for the service vary, depending on the size of the client company and frequency of its use of the résumé bank. SkillSearch Corp., in Nashville, Tenn., for example, charges first-time users $375. SkillSearch recruits candidates for its national résumé bank through direct-mail solicitations to members of university alumni associations.

Regular users of the SkillSearch résumé bank are assigned a service representative who assists in preparing each search, according to Tonya Hobbs, director of university relations.

"Every opening comes through us before going anyplace else," she says. "We work with the client company. It's as easy as using a headhunter."

Because professional recruiters often receive a fee as high as 50 percent of a candidate's first-year salary, résumé data bases can save small to midsize companies thousands of dollars per job placement.

Not all résumé banks charge businesses a fee. For example, the National Résumé Bank, in St. Petersburg, Fla., lets companies use its data base for free but charges job applicants a one-time $40 fee, says Frank Fox, executive director. Companies use a computer modem to gain access to more than 3,000 résumés in the data base.

In many cases, individuals who submit résumés to data bases hold jobs and may not be actively seeking to relocate. Yet an improved salary and a more challenging position may woo them away from their current employers.

Résumé data-base services typically list candidates for a full range of positions. The National Résumé Bank, for example, includes clerical workers, plant managers, and executives. SkillSearch positions itself against headhunters who handle clients in the broad salary range of $30,000 to $250,000.

Some candidates listed in a résumé bank are looking for part-time or occasional employment. Maresco says he has been able to locate several free-lancers for his advertising agency by using such a data base. "I get talent from all over the Northeast," he says. "With fax machines and overnight mail, you don't need to have people right in your own back yard." NB

Janine S. Pouliot is a free-lance writer in Green Bay, Wis.

Where To Start

To find a résumé bank, look for advertisements in the employment section of a big-city newspaper or in the Yellow Pages. In addition, university placement offices often have information on résumé banks that recruit recent graduates.

When choosing a résumé data base, be sure to inquire about the company's history and scope of operations. How long has it been in business? How many job candidates does it list? What is the range of the candidates: local, regional, or national? How are candidates recruited? (Some data-base firms use newspaper ads to solicit résumés. Others may approach college placement offices for recent graduates.) Ask for references from companies that have used the data bank.

Finding a résumé bank that suits your needs is the first step in using this type of employee recruiting successfully.

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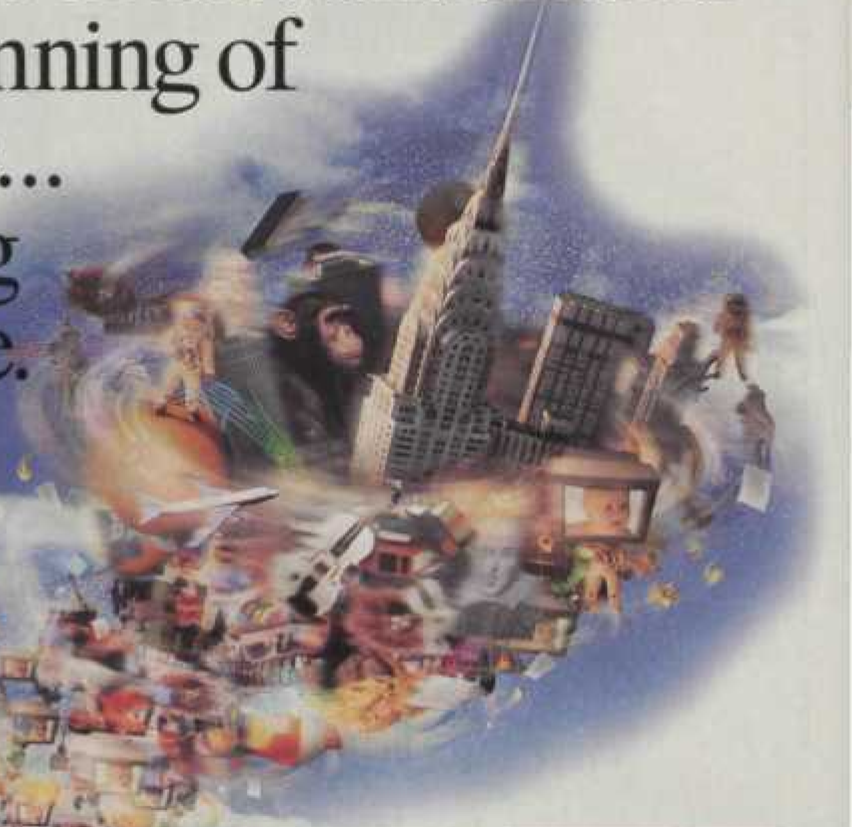

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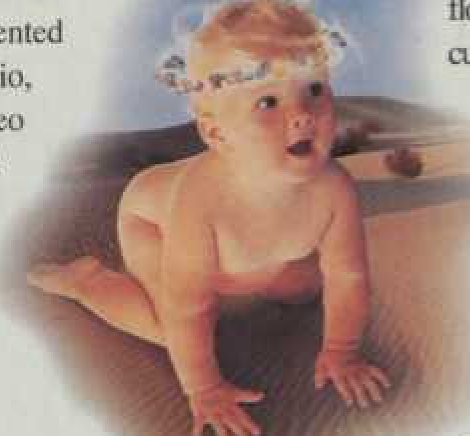

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MANAGING

Quality's Link To Productivity

Techniques in TQM are helping small companies succeed in a business climate that doesn't forgive the inefficient.

By Howard Rothman

In 1986, Globe Metallurgical Inc. was in trouble. The Beverly, Ohio, producer of ferro-alloy and silicon metal had changed owners twice in the '80s, and it had just gone through an 18-month strike. As Norm Jennings, director of quality, says, "We were in a survival mode and facing extinction."

To save itself, Globe turned to Total Quality Management, a cluster of techniques that emphasize teamwork, measurement, and continuous improvement, all aimed at maximizing customer satisfaction. A leveraged buyout, new executives, and eventual decertification of an employee union allowed the company to shrink from 380 employees to 130. The company also shifted its focus from supplying the declining steel industry to servicing the foundry and chemical industries and segments of the aluminum industry.

Rewritten job descriptions, flattened management, introduction of work teams, and removal of time clocks were some of the TQM-related changes. "We made life easier for the people who work here," Jennings says.

PHOTO: ©LAURA ELLIOTT

Globe Metallurgical Inc. *says TQM-related changes have helped it become 50 percent more productive than it was in the mid-'80s.*

Today, Globe is back up to 270 employees, and it produces 1,100 tons of material per worker-hour. The industry average is 450 to 500 tons. The company says it is 50 percent more productive than it was anytime before the strike. Exports were 2 percent of sales before the strike and are now 20 percent. Jennings says employees "are asking questions that nobody asked before," and the answers, according to the company, are translating into higher productivity.

For small companies like Globe, improved quality, and the improved productivity it brings, can be the difference between a good year and a great one, or, more ominously, failure and success.

George Robinson Jr., president of Robinson Brick Co., in Englewood, Colo., believes that most companies in his highly competitive industry already rate well in terms of productivity. The brick business does not forgive inefficiencies, he says. Robinson, however, also believes that survivors, like his own 113-year-old family firm, must constantly remain alert for ways to increase productivity even more. So he, too, has turned to TQM.

Robinson's 185-employee company, involved in all phases of the brick business, from raw materials to retail, began experimenting with quality principles in the 1950s. In early 1992, it committed itself to self-directed work teams as a way to serve its varied customers better. More recently, it began actively seeking new workers who already believed in the principles of TQM. Robinson hopes to fill the company with employees who will take its problems as seriously as he does and work just as hard for its success.

Robinson's specific goals are to cut waste by 10 percent, increase sales margins by 10 percent, and boost production by 20 percent. He thinks TQM will help accomplish those goals by allowing team members to operate their departments like small businesses, assuming both the responsibility and the pride of ownership. To speed up the change, he has put out the word that about half the positions in his work force, currently filled by temporaries, are now open as permanent positions to team-oriented newcomers.

"Our focus is on quality, and we know that productivity will follow," Robinson says. He expects to see significant improvements this year and to meet his goals by 1996.

Robinson feels that TQM, with its emphasis on employee empowerment and teamwork, is natural for his labor-intensive company, which last year produced more than 70 million bricks in 125 colors. And the path he has chosen, according to quality experts, should lead him to the results he seeks if he backs up his commitment with action.

Quality programs, supporters contend, can directly improve productivity in a company of any size, regardless of whether it is a start-up, a struggling young firm, or an older family firm looking for an added edge against the competition.

TQM is explained most often in terms of eliminating defects, but defects are just one form of waste. As Marion M. Steeples, president of a Denver-based consulting firm called Resources For Quality, points out, every company has some kind of

Howard Rothman, a writer based in Denver, is co-author of Companies With A Conscience: Intimate Portraits of Twelve Firms That Make A Difference *(Birch Lane Press/Carol Publishing).*

waste that can be attacked. By using such TQM techniques as statistical process control, Pareto charts, and fish-bone diagrams, a company can locate waste, identify its cause, and eliminate it.

"Quality makes you more efficient, and productivity is the ratio of output over input," says Steeples, author of *The Corporate Guide to the Malcolm Baldrige National Quality Award* (Business One Irwin and Quality Press) and a five-year member of the Baldrige Board of Examiners. "The link is very tight. Quality leads to productivity."

That connection is of special interest now. Even though productivity has improved over the past couple of years, such gains are typical at the end of a recession, when orders increase before hiring does. Moreover, the gains have come after a period when productivity grew slowly.

According to the U.S. Labor Department, nonfarm business productivity, defined as output per hour of work, dropped at an annual rate of 1.8 percent in the first quarter of 1993 and 0.4 percent in the second quarter. The third quarter had an increase of 3.9 percent. Firms that commit themselves wholeheartedly to the quality movement thus have an opportunity to lock into productivity gains that might otherwise prove ephemeral.

"There's no doubt about it: Quality and productivity go hand in hand," says Larry Abernathy, vice president of quality at Convex Computer Corp., based in Richardson, Texas. A 10-year-old company that produces supercomputer hardware and software for a variety of industries, Convex has always been committed to quality management, says Abernathy. "It's the way we've run our business since day one," he says.

Today, continuous improvement for total customer satisfaction is an integral part of the way Convex's 1,200 employees—about half of whom work at company headquarters—conduct their daily business. Its 50 work teams receive extensive training in team membership and team management.

Ten-member "work cells" take responsibility for functions such as assembly and product engineering. "Strategic committees" focus on process improvements and product strategies. Customer-support personnel use a daily "alert list" to tell corporate officers about client problems and the steps taken to solve them. Annual surveys, focus groups, and user groups solicit customer feedback, and Convex employees are empowered to act on customer concerns without waiting for approval from layers of management.

As for results, Abernathy says the quality of Convex components has improved by a factor of seven even while the products themselves have become four to 10 times more complex. Recently, the company zeroed in on facilities management; now it is looking at improving its order-processing systems.

"We focus a lot on cycle-time improvement in everything we do, from development to order processing," Abernathy says. "We know that if we improve that significantly, we're going to improve quality and productivity."

PHOTO: ERICK FREEDMAN—BLACK STAR

Just-in-time *manufacturing has helped Lifeline cut rework, John Gugliotta says.*

At Iomega, a company of similar size in Roy, Utah, that produces mass storage devices for computers, the push for quality has also made an impact. Hailed as one of the nation's fastest-growing businesses in 1985, the company had gone $20 million into debt and was nearing bankruptcy four years later.

Fred Wenninger, the new CEO, organized employees into work teams—long-term, narrowly focused groups charged with improving various manufacturing processes—and problem-solving teams—short-term, across-the-company groups united to address specific issues.

By 1991, Iomega was once again profitable. It had wiped out its debt, while simultaneously achieving a 98 percent customer satisfaction rate.

Capping its resurgence, the firm won the Shingo Prize for Excellence in Manufacturing in 1992. Named for the co-creator of the Toyota production system and awarded annually since 1988 by Utah State University's College of Business, this award recognizes American companies that meet criteria in productivity, quality, customer satisfaction, and manufacturing processes.

"I attribute all of this to our quality efforts and the fact that they made us lean and mean," says Sharon Sarlo, manager of Iomega's quality program. "The underlying change was that everyone began working to solve their own problems."

The improvements in productivity recorded by this 14-year-old company support her claims. The manufacturer can now build 5.2 computer drives and 9.3 tape heads a day, for example, compared with daily production in 1987 of 2.2 computer drives and 2.9 tape heads.

Iomega has also reduced its printed-circuit assembly-cycle time from 18 days to just over an hour, its cartridge assembly time from five days to two hours, and its month-end books-closing time by one-third. "The results are pretty amazing, and they're companywide," Sarlo says.

Another company that saw dramatic results from a successfully implemented TQM program was Lifeline Systems Inc., a 225-employee company in Watertown, Mass. The firm manufactures and markets a home personal-response system that alerts emergency personnel when its owner needs assistance.

Fueled by an unbending demand for perfection—when a customer pushes the help button, the device *must* work—Lifeline underwent a total overhaul in 1987 aimed at improving processes, reducing waste, eliminating mistakes, and satisfying customers. "We implemented an integrated, holistic philosophy that focused on quality, products, and systems," says John D. Gugliotta, vice president, operations. "We felt it couldn't work if we had one without the others."

Among the changes was Lifeline's adoption of a just-in-time manufacturing philosophy that led first to decreased waste and rework and ultimately to a variety of related improvements. The time it took to turn unfinished incoming material into finished outgoing products fell from more than 30 days to less than five days, and unit production per square foot of factory space has grown by 400 percent since 1987. In 1991, the company won the Shingo Prize.

All has not been perfect at Lifeline since TQM took hold, however. After watching revenue rise from $25 million in 1989 to $38 million in 1991, the company dipped to $32 million in 1992. Lifeline has realized belatedly, Gugliotta says, that continuous improvement in quality and productivity must be matched by sales.

"It became difficult for us because we improved productivity to such a point that we didn't have the demand to support our new capacity," he says.

For most small firms, though, a dramatic increase in productivity is the kind of problem that they would be happy to have. And the evidence is overwhelming that TQM can get them there. NB

SMALL-BUSINESS COMPUTING

Updating Your Office Equipment

In this special report, our experts look at powerful new products that are multifunctional and, most important, easy to use.

By Jon Pepper and Albert G. Holzinger

For some small-business buyers, the term "office equipment" still dredges up images of electric typewriters, unsophisticated copiers, and ordinary filing cabinets. If you're one of those buyers, it's time to get in touch with today's high-tech office equipment: powerful, full-featured, easy to use, and increasingly digital.

In other words, the differences between office equipment and computer equipment are rapidly diminishing from few to none. Office products that are like PCs "clearly are the way it is going," says Frank G. Cannata, author of the *Cannata Report*, a widely read newsletter on office products.

Though sales of stand-alone office products such as copiers and fax machines remain strong, so too are sales of devices—such as the Canon GP55—that combine the capabilities of several office machines in a single unit.

"Multifunction products will definitely increase in intensity and capability, and more and more products will have their own powerful internal microprocessors," Cannata says.

Moreover, office products are now being designed to work better with one another, perform more capably on local area networks (LANs), and handle increased workloads.

For example, office printers are now commonly designed to handle input from several computers simultaneously, easing work flow. And a new software specification developed by Microsoft Corp., called Microsoft At Work, will allow the user to operate copiers and other conventional office devices from their personal computers.

Says Cannata: "The Microsoft At Work specification really accelerates that whole process of connectivity by allowing hardware manufacturers to get on-line and in touch with computer products."

As a result, a wide variety of office products in all price ranges are becoming more functional and, in many instances, as easy to use as home appliances.

Following is a sampling of some of the new-age office products that have caught our attention recently.

Copiers

Canon NP 9850

Canon USA Inc., 1-800-OK-CANON, or 1-800-652-2666: For businesses that need a state-of-the-art copier, Canon has a full range of extremely sophisticated models that are easy to use. The NP 9850 copier-duplicator, the flagship of Canon's line, offers both high-volume copying and advanced finishing, including collating and stapling at 85 sets a minute. The document feeder can handle 60 pages of originals at a time, and the system can support automatic two-sided copying of any document. Two 1,000-sheet paper drawers are standard, as is a control for enlargements or reductions in 0.5 percent increments.

The NP 9850 erases handwritten notes in a document's margins before copying it and inserts covers, transparencies, or other special pages. An easy-to-operate panel can be preprogrammed for up to nine customized jobs. The price is $74,000.

Thanks to digital technology, *advanced office products such as these copiers, fax machines, and printers are showing the "intelligence" that business users have come to expect from today's high-speed personal computers.*

Canon NP 9850

Ricoh IFS66

Sharp SF-2035

Sharp Electronics Corp., (201) 529-8920: The Sharp SF-2035, which costs $6,735, has a capacity of 50,000 copies a month and performs at more than ample speed while carrying out a host of functions usually found only on more expensive copiers. For example, the SF-2035 can turn out 34 copies a minute after only a two-minute warm-up and can enlarge documents as much as 200 percent.

The SF-2035 has a modular design, so its capability can be enhanced as a business grows. For instance, the standard, 550-sheet capacity can be increased to 2,550 sheets, and a two-sided-copying module can be added. Other expansion modules include a 20-bin stapler-sorter.

Fax Machines

Konica Fax 820L

Konica Business Machines, 1-800-2-KONICA, or 1-800-256-6422: Konica's Fax 820L and the similar Fax 825L deliver plain-paper fax documents of high quality for midsize offices. The light-emitting-

diode (LED) print engine provides 300 dots per inch (dpi) resolution, but a print-enhancement process makes documents look even crisper. Both systems have 128-level gray scales (most faxes offer 32 or 64 gray levels) for superior reproduction of photographic images.

Both units also feature an automatic fax-telephone switch so they can share a line with a regular phone, and a port that lets them double as a laser printer. The standard paper capacity of both the 820L and 825L is 500 sheets. The 820L has a 9.6 kilobits per second (kbps) fax modem and 29 pages of document memory, while the 825L has a 14.4 kbps modem and 68 pages of memory. List prices are $3,995 for the 820L and $4,295 for the 825L.

Xerox MajestiK

Mita LDC-650

Mita Copystar America, 1-800-ABC-MITA, or 1-800-222-6482: Although the LDC-650 is the smallest unit in Mita's plain-paper fax line, it delivers high-speed scanning and faxing. The unit can scan a page in just six seconds and store up to 15 pages in memory. (By adding memory, you can increase that to 135 pages.) The standard paper cassette holds up to 250 sheets of letter- or legal-size paper. Also standard are an energy-saver mode that turns the machine off when it is not in use and a security feature that prevents misdirected faxes. List price: $2,895.

Sharp FO-5400

NEC SilentWriter 1097

Okifax 1000

Okidata, (609) 235-2600: The prices of plain-paper fax machines have declined so much in recent years that users can now buy a full-featured model without mortgaging their businesses. A good example is the Okifax 1000, which offers plenty of convenience features wrapped around its plain-paper print engine. The LED engine in the Okifax prints faxes or copies at four pages a minute.

The system comes with a 30-page automatic document feeder, a 70-number rapid dialer, and a 14-page document memory. In addition, the system can be expanded easily to 78 pages of received-fax memory, and a 250-sheet paper tray can augment the standard 100-sheet tray. Other notable features include automatic reduction of legal-size documents to letter-size paper and easy-to-change, 2,500-page toner cartridges. List price: $2,299.

Ricoh IFS66

Ricoh Corp., 1-800-63-RICOH, or 1-800-637-4264: The trend in fax machines is to build in "intelligence," and one of the smartest models you'll find anywhere is the Ricoh IFS66.

This is one of the first systems to support the Microsoft At Work software standard. More than a plain-paper fax, the IFS66 is capable of faxing, printing, scanning, and copying. The unit can send and receive faxes at up to 14.4 kilobits per second, accept documents up to 11.7 inches wide, and transmit a page in six seconds. Moreover, the IFS66 can turn out 10 laser-printed pages a minute at 300 dots per inch resolution, and it is compatible with both Hewlett-Packard's PCL 5 printer language and the Windows Printing System.

The IFS66 can competently provide scanning, faxing, and printing services over an office computer network. The list price hasn't been set yet, but industry sources expect it to retail for about $6,800.

FAX Sharp FO-5400

Sharp Electronics Corp., (201) 529-8948: How can you improve a fax machine that has lots of memory, prints on plain paper, and offers more functions than a business owner might ever use? Try two-sided faxing. Sharp's FO-5400 is the only fax machine that can send a two-sided document without the original being reinserted by hand. The FO-5400 scans an entire document on each side, sorts and stores the pages in its 51-page memory, and then faxes them in the correct order. Other features include a 40-number rapid dial, a 64-level gray scale, and an ability to print eight pages a minute on plain paper. Suggested price: $3,795.

Printers

NEC SilentWriter 1097

NEC Technologies Inc., 1-800-NEC-INFO, or 1-800-632-4636: Buyers increasingly demand office printers that connect with networks and produce high resolution. The NEC SilentWriter 1097 delivers on both fronts. Its engine produces at a resolution of 600 dots per inch (or four times the coverage of conventional, 300 dpi laser printers), and the 1097's output is a fleet 10 pages per minute.

The printer comes with Apple LocalTalk, parallel, and serial ports, and all three can be active simultaneously. An optional LANCruiser adapter ($650) allows the system to connect directly to either EtherTalk or Novell networks. Standard equipment includes 7 megabytes (MB) of random-access memory (RAM), a port for adding a hard drive, and a 250-sheet paper tray. Moreover, the printer supports the popular PostScript Level 2 language of Adobe Systems Inc. Street price: $1,500.

Panasonic KX-P5410

Panasonic Communications & Systems Co., 1-800-742-8086: If you're in the market for a capable stand-alone printer, Panasonic's KX-P5410 Laser Partner can fit the bill. The KX-P5410 delivers high-quality output for a printer with resolution of 300 dots per inch, and it produces five pages a minute.

This versatile printer's standard fea-

tures include 2 megabytes of memory, 17 scalable Adobe PostScript fonts, and 28 fonts that are compatible with Hewlett-Packard's LaserJet printer language. Other features of the KX-P410, which is rated at 3,000 pages a month, include a 200-sheet paper tray, an easy-to-use control panel, and serial, parallel, and AppleTalk interfaces. List price: $1,399.

Tektronix Phaser 220i

Tektronix Corp., 1-800-835-6100: Network managers are increasingly buying at least one color printer for those in their companies who need such printouts, and Tektronix has gained a reputation as a leader in delivering affordable, high-quality color output. The company's latest offering is the Phaser 220i.

It is the first affordable device employing the thermal transfer printing process, which is capable of producing a resolution of 600 by 300 dots per inch (instead of 300 by 300 dpi). For users, the additional resolution means much sharper graphics and finer lines as well as color quality approaching that produced by far more expensive (and substantially slower) dye-sublimation printers.

For color fidelity, the 220i is certified by Pantone, so the user can get accurate simulation of Pantone's printed-output color standard. Tektronix's ColorCoat technology allows the 220i to deliver excellent results on conventional copier paper. List price: $5,995.

Xerox MajestiK

Xerox Corp., 1-800-TO-COLOR, or 1-800-862-6567: Xerox has long been a leader in color-imaging products for the office, and the MajestiK series will not diminish that status. This product can quickly print full-color documents at 400 dots per inch.

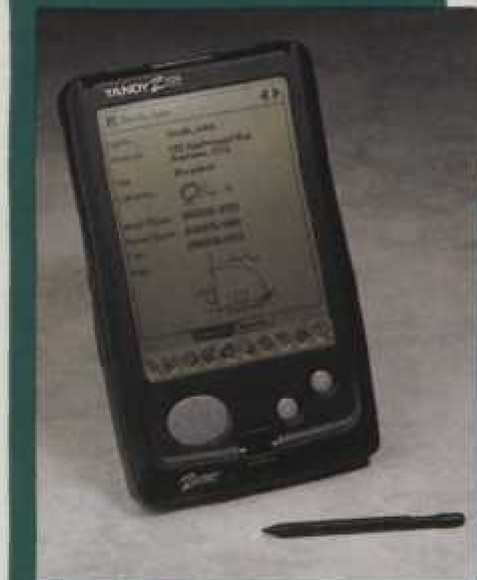
The floor-standing unit can produce six full-color pages or 36 monochrome pages a minute. Many editing and conventional copier features are included, and the MajestiK can receive images from a wide variety of devices. List price: $75,000.

Mobile Office

Compaq Concerto

Compaq Computer Corp., 1-800-345-1518: If versatility is your benchmark for desirable office products, then the Compaq Concerto deserves a look. This unique modular notebook computer allows either pen or keyboard input and sports a handle that doubles as a display stand. You can get either 25-megahertz or 33Mhz versions of the 486-microprocessor-powered Concerto, with a 120-megabyte (MB) or 250-megabyte hard drive, 4 megabytes of random-access memory (RAM), and a 9.5-inch monochrome screen that can stand upright when detached from the keyboard.

Compaq Concerto


Tandy Zoomer


IBM ThinkPad 750C

Two pen applications, the InkWare NoteTaker and the PenPower for Excel spreadsheet, are shipped with the system. Retail prices start at $2,499.

Epson ActionNote 700

Epson America Inc., 1-800-289-3776: Epson has made its subnotebook computer more functional. The ActionNote 700 model weighs just 4.4 pounds with its monochrome screen (the active-matrix color model is just 4.9 pounds) and includes a 33-megahertz 486DX processor, simultaneous liquid crystal display (LCD) and external monitor support, and local bus video for fast graphics.

Base features of the 8.6-by-11-by-1.4-inch system include an integrated trackball, a fax-modem, and removable hard drives ranging in capacity from 80 to 213 megabytes. A full suite of software comes with the system. The monochrome version has a street price of under $2,000.

GRiD Convertible 486

AST Research Inc., 1-800-876-4278: The Convertible, the first mainstream portable computer to accommodate pen as well as keyboard input, is durable, diminutive (2.1 by 11.6 by 9.6 inches and 6 pounds), and yet functional. The Convertible's 25Mhz 486 microprocessor, 4MB standard RAM (expandable to 12MB), and 125MB hard drive (a 200MB drive is available) provide plenty of horsepower and storage.

The Convertible is modular, allowing a seated user to type in data on the keyboard or with a pen directly onto the Convertible's highly readable 9.5-inch, back-lit monochrome screen. The list price, including an external 3.5-inch floppy-disk drive and operating-system software, is $1,999.

IBM ThinkPad 750C Multimedia System

IBM Corp., 1-800-IBM-2YOU, or 1-800-426-2968: When you leave your office, you no longer have to leave your multimedia capabilities behind. The IBM ThinkPad 750 series features a Traveling Multimedia option that delivers every element necessary for creating or presenting multimedia output at remote sites.

The base system is powered by a 33Mhz 486 microprocessor, and it sports either a 170MB or a 340MB hard drive. The 750C uses a 10.4-inch active-matrix display for crisp color and has a built-in 16-bit audio card and a high-fidelity speaker. The high-end notebook is also configured with a 340MB removable hard drive, 12MB of RAM, a CD-ROM drive, a high-speed data-fax modem card, and a desktop docking station preloaded with software.

While the 750C weighs a scant 5.5 pounds, adding all the multimedia accoutrements and the docking station increases the weight to a still reasonable 11.7 pounds. For a comprehensive multi-

media office on the go, the ThinkPad Traveling Multimedia system is the best solution we've seen. List price: $8,599.

Tandy Zoomer

Tandy Corp., (817) 390-3700: Apple Corp.'s groundbreaking personal digital assistant, the Newton, has been widely derided for its poor performance and its inability to connect with other equipment. Succeeding PDAs are better, and this product category has a lot of potential for improving business productivity.

The best PDA we've seen thus far is the Tandy Zoomer, which combines a host of built-in applications, excellent communications capabilities, and ease of use to create a tool with outstanding versatility and portability. (It's 1 by 4.2 by 6.8 inches and 15.3 ounces.)

The Zoomer's $699 list price includes a calculator, a world clock, a dictionary, a spelling checker and thesaurus, a date book, a to-do manager, and a free-form notebook. You also get handwriting recognition, plenty of miscellaneous data, and even a "pocket" version of Intuit Inc.'s best-selling personal-finance program, Quicken.

Toshiba Portége T3400

Toshiba America Information Systems Inc., 1-800-334-3445: If you plan on taking your office with you, it might as well be as small and light as possible. That reasoning is making subnotebook PCs the hottest mobile-office product category, and one of the new trend-setters is the Toshiba Portége T3400.

Dubbed an ultraportable by Toshiba, the 4.1 pound (with battery) Portége features a first-rate keyboard, 4MB RAM, a 120MB hard drive, and an integrated pointing device. Plus, the T3400 features the first active-matrix color screen in a subnotebook. A monochrome version is also available.

To provide ample power for running Windows, the Portége uses swift local bus graphics technology (a feature not previously found in subnotebooks) and a 33Mhz 486 microprocessor. To help you keep in touch while on the road, Toshiba ships the system with CommWorks, a fine communications package from Traveling Software that handles data and fax chores. Moreover, a PCMCIA slot can accommodate a pocket-sized fax-modem. List prices: $2,599 for the monochrome T3400 model, $3,999 for the T3400CT color version.

Miscellaneous

C-Phone

Twincom, (910) 395-6100: Conferences and meetings are a routine part of the business landscape, yet arranging and attending them is often nettlesome. Desktop video conferencing—in which participants "meet" via their PCs—is designed to minimize time and location conflicts. C-Phone is an inexpensive PC-to-PC video phone system that delivers real-time, full-motion color video and synchronized audio from one desktop to another.

You can use the system either on a network within your office or at a remote site (by using high-speed phone lines). The C-Phone system, which can support as many as 32 simultaneous two-way calls on either the Novell or Artisoft networks, comes with everything necessary for real-time desktop video conferencing: a camera-microphone-speaker unit that sits atop the monitor, and all of the necessary software. List price: $1,995 per PC.

Canon GP55

Canon USA Inc., 1-800-OK-CANON, or 1-800-652-2666: What is Canon's GP55? At its most basic level, it's a copier with 30-copies-a-minute speed, resolution of 400 dots per inch, and a host of useful features, including 25 to 400 percent enlargement-reduction, image control, positive-negative control (for reversing images), and freehand editing of areas to be copied. Because the GP55 is a fully digital unit, its Digital Image Processing System allows it to do much more, including scanning, printing, and faxing. Various optional boards can expand basic copying capabilities, turning the GP55 into a multifunction device. When connected to a network, the system can serve several imaging needs. For instance, some users might access its printing, some its faxing, others its scanning, and so on. Basic systems begin at $12,995.

Hewlett-Packard ScanJet IIcx

Hewlett-Packard Co., 1-800-SCANJET, or 1-800-722-6538: Scanners can be among the most useful office productivity tools, with their ability to perform functions such as adding photos and drawings to documents. High cost and perceived difficulty of use, however, previously kept them out of many businesses. The Hewlett-Packard IIcx is designed to eliminate those objections. The system is twice as fast as its predecessor (the IIc), while sporting a list price 25 percent lower. It can handle both color and black-and-white originals, and it is shipped with new software that increases resolution and makes scanning simpler.

Resolution ranges from 400 dots per inch to 1,600 dpi, and a black-and-white page can be scanned in as little as eight seconds. For optical character recognition use, the IIcx features Version 2.0 of H-P's AccuPage technology, a hardware process that vastly improves accuracy. The new software is easier to install, and H-P's DeskScan II scanning software delivers one-touch scanning of photos and documents. The system is shipped with a special version of either Aldus PhotoStyler (PC) or Adobe Photoshop (Mac) and lists for just $1,179. **NB**

Hewlett-Packard ScanJet IIcx

Mobility is a hallmark *of today's advanced technology. Powerful but portable computers and personal digital assistants work together with office-based products to keep you in touch with employees and customers no matter where you are.*

Twincom C-Phone

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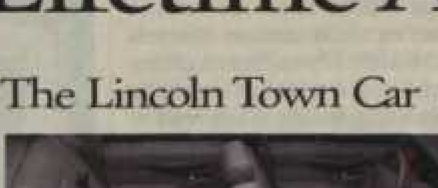

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INTERNATIONAL TRADE

Getting Help To Fight Back

Small manufacturers hurt by foreign competition can get federal assistance to meet the challenge.

By Robert Sullivan

Low-cost Canadian snowshoes threatened to drive Ed Kiniry's company, Stowe Canoe and Snowshoe Co., in Stowe, Vt., out of business. "We were being undercut by inferior-quality imports," he says. "Canadian maple was underselling our ash frames at 60 percent of our lowest price."

Rather than give up, Kiniry got help. He turned to a federal program designed to help small manufacturers recover business lost to imports. The Department of Commerce's Economic Development Administration, through 12 regional Trade Adjustment Assistance Centers, pays up to 75 percent of the cost of consulting services needed to turn around small firms adversely affected by foreign competitors. The regional trade centers can deliver help in as little as 60 days after a company applies.

The New England Trade Adjustment Assistance Center, in Boston, helped Kiniry get a $40,000 grant from the Commerce Department to hire consultants. Upon their recommendation, Stowe Canoe and Snowshoe developed an aluminum snowshoe that became an instant market hit. Since introducing the product last year, the company has doubled its work force to 30 employees and has captured 30 percent of the growing metal-snowshoe market, which is projected to reach sales of $5 million this year.

"If the business needs help, we provide it directly or contract with independent consultants for the expertise," says Richard McLaughlin, director of the New England Trade Adjustment Assistance Center.

Although the center covers only "the soft costs," such as consultants' fees, and does not pay for equipment or inventory, Kiniry says the $40,000 grant made it easier for his company to spend $110,000 of its own money to sell the snowshoe.

Under the program, participating companies are required to pay at least 25 percent of the cost of the consulting services. McLaughlin says New England area companies that complete the program realize an average 120 percent increase in profitability, a 10 percent increase in sales, and a 5 percent increase in employment.

The centers provide three levels of service: certification of a company's injury from imports, consulting services to prescribe a remedy, and help in implementing consultants' recommendations.

Certification is free. A company must demonstrate that imports threaten its sales, production, and jobs. The center handles all of the paperwork, and the program is confidential. In 1993, 249 small manufacturers nationwide received Trade Adjustment Assistance Center certification, clearing the way for the next level of assistance.

PHOTO: DOWEN STAYNOR-BLACK STAR

Aluminum snowshoes—*and a federal program—saved his Stowe Canoe and Snowshoe Co., says Ed Kiniry, right, talking with employee Steve Judkins.*

Once a company is certified, professionals spend two to four weeks determining the firm's strengths and weaknesses. A result is an "adjustment proposal," which is similar to a business plan. It outlines a strategy for recovery and includes a grant proposal for consulting services submitted to the Department of Commerce for approval. Proposal review takes about two weeks.

Last year, the Department of Commerce funded 143 adjustment proposals. Congress appropriated $10 million for the program in 1994, down $3.7 million from the previous year.

Once a grant request is approved, the company and the Trade Adjustment Assistance Center select consultants through competitive bidding.

A $50,000 grant for trade adjustment assistance helped revive Roger Leib's ailing company, Add Interior Systems Inc., a Los Angeles manufacturer of upholstered institutional seating. In 1990, import competition cost Leib's firm more than $750,000 in potential sales, and the company lost money for the first time in its 13-year history.

With help from the Western Area Trade Adjustment Assistance Center, in Los Angeles, Add Interior was able to redesign its production layout, install an incentive-pay system, nearly triple the pace of production, increase overall quality, integrate its management-information system, and enhance customer responsiveness. It also streamlined its product line.

"It was amazing how many cost and waste factors were identified and changed," Leib says.

He says sales have climbed 100 percent since he implemented the center's recommendations. Employment has risen to 73 from 52.

"During the past few years, our return on investment of federal funds has been 320 percent," says Dan Jimenez, director of the Western Area center. "Fiscally, socially, and practically, this program works."

For more information or to obtain the address and phone number of the center nearest you, call the Trade Adjustment Assistance Division of the U.S. Department of Commerce in Washington, D.C., at (202) 482-3373. NB

Robert Sullivan is a free-lance writer in Westborough, Mass.

BENEFITS

Child-Care Options For Small Firms

For relatively little cost, a firm can reap benefits by helping employees with family responsibilities.

By Roberta Maynard

PHOTO: ERICK FRIEDMAN—BLACK STAR

While their parents work, *children enjoy a learning exercise led by Paula Martin, owner and operator of the Mashpee Creative Children's Center, in Mashpee, Mass.*

As companies face the realities of a changing workplace, child care is a growing aspect of the business of business.

The issue has been pushed to the fore by a strong demographic trend over two decades—the sharp growth in the ranks of working women with preschool children. Of all women with at least one child under 6 last year, 57.9 percent were in the labor force, up from 39 percent in 1975, the year the numbers were first recorded by the Bureau of Labor Statistics.

Although only 6,000 employers nationwide—out of a total of 6 million—offer child-care benefits to their employees, their ranks have increased an estimated fourfold in the past 10 years, according to the Families and Work Institute, a nonprofit organization in New York City.

Businesses that help their employees with child care have found they themselves can benefit through decreased absenteeism and turnover and increased productivity. (See the box at the top of Page 46.) Further, companies may be able to take advantage of state tax credits designed to increase the availability of child-care options. Such credits are offered in 14 states: Arizona, California, Connecticut, Kansas, Maine, Maryland, Mississippi, Montana, New Mexico, Ohio, Oregon, Pennsylvania, Rhode Island, and South Carolina. Bills that would create similar tax credits are pending in Illinois, Massachusetts, and New Jersey.

Federal legislation sponsored by Sen. Dennis DeConcini, D-Ariz., would give employers a one-time tax credit of 50 percent of their costs for constructing, acquiring, or expanding child-care facilities available for their employees' use—either facilities they own or those run by other companies or organizations; the maximum credit would be $150,000.

To what extent such advantages are realized by a company depends on the type of child-care benefits offered to workers and how carefully the choice is fitted to the needs of the company and its employees.

Can a small firm afford to help its workers meet child-care needs? Many companies have discovered that they can. A business owner might think of child care in terms of an on-site center, with relatively substantial start-up costs, additional administrative duties, and increased liability concerns. But there are affordable alternatives.

Jo Rymer, president and CEO of Pro Tem, a Portland, Ore., firm that supplies temporary workers for professional positions, began a voucher program in 1989 for her eight full-time and 140 part-time employees. Each participant receives a voucher that works like a time card. Because the company already used time cards, the program was easy to set up and administer, Rymer says.

The company contributes 75 cents an hour toward child-care expenses for every hour the working parent is on the job, including one hour for travel time and one hour for lunch, or a total of 10 hours for every eight hours worked.

Every two weeks, the company pays its subsidy directly to the day-care providers, who bill the employees for the balance. The company receives a tax credit from the state of Oregon for 50 percent of its child-care payment.

Pro Tem also offers the federal De-

BENEFITS

Attorney *George Reid says his daily goodbye to daughter Meghan at the Wee Folk day-care center in Rockford, Mich.*

PHOTO: BRIAN MASCK

pendent Care Assistance Plan (DCAP), a payroll deduction that allows employees to use pretax dollars (up to $5,000 a year) for child-care expenses. Of the various child-care benefits offered by businesses across the country, this is probably the most widely offered.

Under a DCAP, employees are reimbursed when they submit receipts. Employers' costs, all administrative, are minimal. Further, companies don't pay Social Security or unemployment taxes on the amount by which employees reduce their taxable income.

Rymer made severe cuts in her company's work force during the slow economy, but she retained the child-care program—both the vouchers and the DCAP. "I held on to that, and I'm very proud of it," she says. "The program makes sense. It meant I could get someone out to work who otherwise couldn't have gone." The cost of child care is a common problem among her temporary workers. "Otherwise," she says, "I've potentially lost a job order and revenue, and then I would have to pay the cost of advertising for new people."

Employer involvement in child care offers other benefits, too, Rymer says. "When you are an employer who helps employees with those problems, you're going to create productivity and loyalty. I don't see any reason why a business wouldn't want to get involved in child care in any way that makes sense for them."

In Mashpee, Mass., the partners in the law firm of Dunning, Forman, Kirrane, & Terry found that it made sense for them to help fund a new, independently owned and operated center that would provide quality child care in the same building as their office. The Mashpee Creative Children's Center opened in 1985 and is used by four of the firm's 16 full-time employees. The firm also offers each employee a child-care subsidy of $40 per week, which can be used at that center or at any other facility the employee chooses.

Another relatively low-cost option is the use of resource and referral agencies to provide various services to parents seeking child care. These services may include offering lists of providers to parents and information to help parents obtain public subsidies.

Some agencies offer provider training and manage voucher programs. One such agency is the Child Care Project, a nonprofit group in Hanover, N.H., funded by 20 local businesses, the local United Way, and the states of New Hampshire and Vermont.

Companies that contract with the agency to provide information and counsel to their employees are billed annually based on their employees' use of the service during the year. Companies also pay an annual retainer to cover the cost of brochures for parents. Last year, the Child Care Project served four rural counties and helped 700 families.

While an on-site center is the most expensive child-care option, the advantages are many, as Rosemary Byrne has discovered. Byrne is vice president and co-owner with her husband, Norman, of Byrne Electrical Specialists, Inc., in Rockford, Mich. In 1988 the Byrnes decided to open an on-site center. They had 110 employees, 92 percent of whom were women 18 to 40 years old; 10 of their employees were pregnant.

The Byrnes renovated an existing

How To Help Your Workers

Small companies can help their workers with child care in a variety of ways. Here are options for your firm to consider:

- Pay a portion of employees' child-care costs, either by reimbursing employees or by paying their providers directly.
- Contract with local resource and referral services, which help parents locate the care they need.
- Provide financial support to existing child-care facilities.
- Make tax-deductible donations of materials or labor to child-care facilities.
- Fund, or join with other businesses to fund and operate, an on-site center or one nearby.
- Contract with or subsidize an emergency on-call child-care service to enable employees to come to work when their regular arrangements fall through.
- Support local training programs for child-care workers.
- Offer employees a pretax payroll deduction for child care (also known as flexible spending accounts) to help reduce their ultimate costs.
- Negotiate with a center or in-home provider to get discounts for employees based on volume or in return for other services.
- Let employees use their sick time for taking care of their children who are ill or for other family emergencies.
- Designate a willing employee to gather information on available child-care facilities, and regularly share it with all workers.
- Work to improve standards in child-care facilities, particularly family day-care homes, where the quality of care is most uneven.

Company managers considering a child-care program should first talk with employees about their child-care needs. Investigate the types of child care available.

Talk with directors of nearby centers and with local authorities about community child-care needs.

Be certain to seek legal and accounting advice before implementing any child-care program.

The Wee Folk day-care center *in Rockford, Mich., was opened in 1989 by Byrne Electrical Specialists' owners, Norm and Rosemary Byrne, for their employees and has operated without a subsidy since 1991. It is under the direction of Kathy Scudder, center, their daughter.*

PHOTO: [illegible]

building at a cost of $228,000, and for the first three years the company subsidized the center. It was set up as a subsidiary of the company, with the Byrnes' daughter as its director. Employees pay 25 to 30 percent less than nonemployees whose children attend. The center accommodates 130 children. Byrne Electrical also offers its employees the DCAP, the dependent-care pretax payroll deduction.

"There is less staff turnover and much better morale," Rosemary Byrne says. "Attendance is better, and people can work overtime because we don't charge extra at the center. We have also seen an increase in the number of applications for employment, and we believe that this is because of the child-care center."

The Byrnes try to incorporate the children's activities into the workday. Parents are encouraged to go to the center at lunch. At Halloween, the children dress up and parade through the factory.

The center also makes a good impression on customers, Byrne says. "I think it has made the difference in whether we have gotten certain contracts—it shows we are family-oriented."

Small companies that can't afford on-site centers on their own can nonetheless obtain the benefits of on-site care by forming consortiums with neighboring businesses and sharing the costs. This was the strategy adopted in New Berlin, Wis.

Three years ago, the mayor of New Berlin, at the suggestion of a departing city employee, formed a task force to assess the area's child-care needs. The group found that the growing community of 35,000 did indeed have a shortage of child care. Working with the New Berlin Chamber of Commerce, 80 employers, ranging in size from five to 5,000 employees, collaborated to build a center at an industrial park. The companies gave money, made in-kind contributions, and supplied other services. A landscaping company, for example, prepared the site.

After 2½ years of planning, the nonprofit center, licensed for 144 infants and children, opened a year ago. Parents pay market rates, which cover operating costs. A professional firm manages the operation.

Employees of the 30 companies that contributed the most to the center have priority enrollment status in the first five years of operation.

Tim Brehm, past president of the day-care center's board, has no doubts about the benefits the facility has provided. His employer, A&A Mfg. Co., Inc., had lost key employees who had grown tired of driving 20 miles out of their way each day to transport their children to and from day care. "It has definitely helped us retain employees and saved us in lost time because now parents are so close to their children," he says. "That also makes them happier."

A consortium is also an effective way for companies to purchase a certain number of slots from existing centers or to negotiate a corporate rate with an in-home facility that accepts children on a drop-in or occasional basis.

Also of concern are children who are mildly ill or who cannot attend their school or regular day-care program during vacations and holidays. The need becomes painfully evident to employers when working parents can't get to their

The Cost Of Care

Child care in the United States is a $20 billion industry. Parents pay thousands of dollars yearly for such care—on average, 10 percent of family earnings. Single mothers on average pay over 21 percent of their earnings, child-care analysts say.

Costs vary significantly with location and quality of care. For example, a parent in a Milwaukee suburb might pay $135 a week for full-time infant care; in the Northern Virginia suburbs of Washington, D.C., $175; in San Francisco, $225. The rate in a rural location might be under $100.

As expensive as child care is, parents' fees don't cover the costs of good care—programs with age-appropriate activities and adequate child-teacher ratios. And experts agree that good care in preschool years lays critical groundwork for children's success in school and later in the workplace as educated, productive employees.

Studies show that day-care employees' salaries are the most significant indicator of the level of quality, yet child-care providers are the second-lowest-paid group of professionals in the country, after members of the clergy, says Barbara Reisman, executive director of the Child Care Action Campaign. The national nonprofit group is based in New York City and provides information about the needs of families.

Child-care workers earn an average of $5.35 an hour, and the industry's annual turnover rate is 40 to 60 percent, which child-care providers and parents agree is not conducive to adequate care. One way to reduce this turnover, Reisman says, is to increase child-care workers' pay.

"Employers have begun to address these issues of price and quality and are helping to bridge the gap," Reisman says. "They do this for the health of the future work force and because they know that employees can work better without this distraction."

BENEFITS

jobs because their arrangements are disrupted.

Businesses may also benefit from efforts by commercial real-estate developers to help communities meet requests for child care and other services. This is true not only in growth areas but also in soft markets where developers are looking for a competitive edge.

In several localities throughout the country, so-called linking ordinances require developers to construct child-care space or contribute to a child-care fund. The first such ordinances were adopted in two California communities in 1985. Other localities offer zoning incentives that reward developers for building child-care facilities.

Partnerships that link business with child care offer advantages on many levels, as business owner Rosemary Byrne found. "We have gotten recognition for our child-care facility from the business side and on a state level," she says. "I've gotten a lot of self-satisfaction because of it. And the children are doing great." NB

To order reprints of this article, see Page 72.

How A Business Can Benefit

In 1987, Union Bank built an on-site center for 60 children of the 1,500 employees at its new operations complex in Monterey Park, Calif. The bank's experience provides a look at how companies can benefit from helping their employees who have child-care needs.

The consultants who designed the center, Barud and Associates, Inc., of Pasadena, Calif., conducted a study that showed that in the center's first year of operation, turnover of employees using the facility was 2.2 percent, compared with 9.5 percent for the bank's employees who had made other child-care arrangements.

Twenty-seven percent of new job applicants reported that Union Bank's on-site child-care center was an important factor in their decision to apply for work at the bank.

Sixty-one percent of applicants said the center was a factor in their choosing to accept a position at the bank.

Employees who used the on-site center were absent less often than parents who used other child-care facilities (4.6 days compared with 6.3 days). This reduction in absenteeism translated into a savings of $19,000. Also, maternity leaves for mothers using the facility were on average 1.2 weeks shorter than those for mothers who didn't use the center.

In the first year, Union Bank estimates, the center benefited the company by $138,000 to $232,000. The totals include the value of reductions not only in absenteeism but also in maternity leaves, tardiness, and turnover with its related costs of hiring replacements.

The figures also include the $40,000 that an advertising firm calculated as the value of publicity that resulted from the center's opening. The center was featured in 27 newspaper and magazine articles, two evening TV news spots, and a radio program.

The overall results have given Union Bank reason to expect it will recover its total start-up cost for the center ($430,000) and its annual contribution for enhanced quality care ($105,000) within five years.

Publications And Resources

Among the organizations offering useful publications on child-care topics is the Child Care Action Campaign, a national nonprofit organization in New York.

The following six publications are offered to *Nation's Business* readers at the special price of $20 apiece (unless listed otherwise) and can be ordered by calling the Child Care Action Campaign at (212) 239-0138.

The publications are:

■ *Not Too Small to Care: Small Business and Child Care* (1991). Profiles 29 small businesses that have implemented a variety of child-care benefits.

■ *Building Links: Developer Initiatives for Financing Child Care* (1993). Examines ways communities have begun to involve real-estate developers in providing child care.

■ *Making the Connections: Public-Private Partnerships in Child Care* (1991). Highlights 20 successful and innovative partnerships for child care among private businesses, voluntary organizations, and public agencies.

■ *Employer Tax Credits for Child Care: Asset or Liability?* (1989). Examines the effectiveness of state tax breaks to employers for child care.

■ *Investing in the Future: Child Care Financing Options for the Public and Private Sectors* (1992). Highlights successful financing models, including grants and loans, bank reinvestment strategies, community initiatives, bonds, pension funds, and employer partnerships.

■ *Employer's Guide to Child Care Consultants* (1992). Focuses on services offered by consultants and how to locate them. Price: $15.

Two other useful publications on child care are:

■ *Quality Child Care Makes Good Business Sense.* Provides an overview of what is involved in establishing a child-care center, including a business-plan outline and discussion of facilities, budget and supply considerations, and cash flow. To order, send a check or money order for $2 to the U.S. Small Business Administration, SBA Publications, P.O. Box 30, Denver, Colo. 80201-0030.

■ *Education Before School: Investing in Quality Child Care* (1993). Devotes 50 pages to programs adopted by businesses. The price is $15. To order, call the Committee for Economic Development at (212) 688-2063.

Organizations that can serve as resources on child care include:

■ Center For Policy Alternatives, a nonprofit center that provides child-care finance policy models: 1875 Connecticut Ave., N.W., Suite 710, Washington, D.C. 20009; (202) 387-6030.

■ Child Care Action Campaign, a national nonprofit organization that provides information, including several publications, about the needs of families: 330 Seventh Ave., 17th Floor, New York, N.Y. 10001; (212) 239-0138.

■ Children's Defense Fund, a national organization that monitors federal and state policies related to children: 25 E Street, N.W., Washington, D.C. 20001. For information on your state's involvement in child care, call the organization's child-care department at (202) 628-8787.

■ Families and Work Institute, a research and planning organization that studies business, government, and community work and family efforts: 330 Seventh Ave., 14th Floor, New York, N.Y. 10001; (212) 465-2044.

■ National Association of Child Care Resource and Referral Agencies, an association of 400 private, nonprofit referral agencies that help parents explore child-care alternatives. These agencies offer, for example, information about child-care providers and contract with local businesses to provide child-care services. For more details or to find an agency in your community, contact the association at 2116 Campus Drive, S.E., Rochester, Minn. 55904; 1-800-424-2246.

BENEFITS

Keeping A Lid On Health Costs

Employers' expenses decreased slightly as workers faced higher deductibles and premiums.

By Roger Thompson

Employers held the line on health-care expenditures in 1992, largely by passing rising costs along to their workers, according to the latest U.S. Chamber of Commerce benefits survey.

"In essence, employers are shifting the burden from themselves to their employees," says Martin Lefkowitz, author of the Chamber's annual benefits survey. "Up until now, employers were absorbing the entire added cost."

"The typical company in our survey either increased deductibles or increased the amount the employee pays for health insurance," Lefkowitz says.

As a percentage of payroll, employers' outlays for health and dental insurance actually declined slightly in 1992, to 8.1 percent, down from 8.4 percent the previous year. Employers paid on average $2,754 per employee for health and dental insurance in 1992, compared with $2,811 the year before. (See the accompanying chart.)

The survey's findings on health expenditures as a percentage of payroll are in line with the Clinton administration's proposal to limit employer expenditures for health insurance to no more than 7.9 percent of payroll, a limit that critics have argued is unrealistically low.

Even without the cost savings the administration projects under its plan, the 7.9 percent figure "is in the ballpark," Lefkowitz says. "For companies that already are providing health insurance, that's about what they are spending."

The survey compiled data on a wide variety of benefits from 1,103 companies, representing a cross section of U.S. companies in size, industry, and location. The firms employed a total of 2.6 million people, making the survey the largest of its kind.

Ninety-seven percent of the participating companies indicated that they pay at least part of their employees' health-insurance premiums.

While employers' health-care expenditures remained in check, benefits of all kinds—including vacations, Social Security, pensions, workers' compensation, life insurance—added up to 40.2 percent of payroll, a 1 percentage point increase from the previous year. In terms of dollars spent per employee, total benefit costs increased by 3.8 percent in 1992, bringing the average to $13,631 per full-time worker.

By contrast, payroll costs rose only 1.4 percent in 1992, meaning that benefit costs rose at a faster rate than pay.

The survey shows large regional differences in employers' average cost per employee for medical benefits, including health, disability, and retiree medical insurance. Such benefits in the highest-cost region exceeded those in the lowest-cost area by $1,979, or just over 70 percent.

Employers' average medical-benefit costs were $4,770 per employee in the Northeast, $3,925 in the West, $3,012 in the North Central states, and $2,791 in the Southeast.

The survey also breaks down costs by industry and by company size. Public utilities paid the highest amount in total benefits, an average of $18,874 per employee. Department stores paid the lowest amount, $5,904 per employee.

The highest level of benefits as a percentage of payroll was reported by companies with between 2,500 and 5,000 employees; the lowest level was posted by firms with fewer than 100 workers.

Survey author Lefkowitz speculates that benefit costs may continue to rise faster than wages for the foreseeable future, driven largely by a powerful demographic trend. As the baby-boom generation, consisting of about 64 million Americans, moves through middle age and toward retirement, medical costs will inevitably rise for this group. "We'll probably continue to see benefits rise faster than wages because of this demographic factor," Lefkowitz says. NB

Employer Health-Insurance Costs

(Both Medical And Dental Coverage)

Year	Costs As Percent Of Payroll	Average Cost Per Employee	CPI* Medical Care	CPI* All Items
1980	5.5%	$ 860	74.9	82.4
1981	5.8	1,033	82.9	90.9
1982	6.3	1,230	92.5	96.5
1983	6.8	1,412	100.6	99.6
1984	7.1	1,508	106.8	103.9
1985	6.9	1,492	113.5	107.6
1986	6.7	1,750	122.0	109.6
1987	6.2	1,725	130.1	113.6
1988	7.1	2,052	138.6	118.3
1989	7.6	2,338	149.3	124.0
1990	7.9	2,569	162.8	130.7
1991	8.4	2,811	177.0	136.2
1992	8.1	2,754	190.1	140.3
Increase From 1980 To 1992:	47.3%	220.2%	153.8%	70.3%

*Consumer Price Index; 1982-84 = 100

SOURCE: U.S. CHAMBER OF COMMERCE

How To Order

Copies of *Employee Benefits, 1993 Edition* are available for $25, plus $2.95 for postage and handling. Add appropriate sales tax for deliveries to California and the District of Columbia. To order, send a check made out to the U.S. Chamber of Commerce to the following: U.S. Chamber of Commerce/Publications, 1615 H Street, N.W., Washington, D.C. 20077-2565.

To charge an order by phone, call 1-800-638-6582 between 9:30 a.m. and 4:30 p.m. Eastern time. In Maryland, call 1-800-352-1450.

Also available is the Employee Benefits Analyzer, a computer software program that allows companies to compare benefits with those in the same industry, geographic region, and size category. The program costs $95, plus $2.95 for shipping. It runs on IBM and compatible computers with a minimum 256K RAM and the DOS operating system and is available on either 5¼- or 3½-inch diskettes. The computer program is available through the address or phone number above.

The survey publication and software can be purchased together for $115, plus $2.95 for shipping.

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Family Business

What's in the mail; generational conflicts; a son who seeks forgiveness.

OBSERVATIONS

A Sampling Of Newsletters For You

By Sharon Nelton

PHOTO: T. MICHAEL KEZA

A number of newsletters devoted to family businesses are published throughout the country by universities, service companies, and individual consultants, and they all seem to hit my desk. Perhaps you can benefit from one or two.

Toward that end, the publishers of a baker's dozen of them have each agreed to send a free sample copy on request to readers of this column, provided you say you read about the newsletter in *Nation's Business.*

While many of these publications are regional and may be intended to promote a particular institution or consulting company, they often contain useful information prepared by such experts as lawyers, accountants, bankers, and management consultants. Some are monthly; others are bimonthly or quarterly. The sample copies you receive will be accompanied by information on how to obtain future issues.

Here are the newsletters that will provide you free samples:

■ *Hale and Dorr Family Business Report,* put out by a Boston law firm. Contact Michael L. Fay, Hale and Dorr, 60 State St., Boston, Mass. 02109; (617) 526-6320.

■ *North Carolina Family Business Forum Newsletter.* Contact John S. Powell, Executive Director, North Carolina Family Business Forum, 111 Tucker St., Burlington, N.C. 27216; (910) 226-1380.

■ *Transitions & Traditions.* Contact Lois Carden, The Cohn Financial Group, Inc., 5080 N. 40th St., Suite 235, Phoenix, Ariz. 85018; 1-800-422-3883.

■ *Family Business Forum Quarterly.* Contact the Family Business Forum, Kennesaw State College, P.O. Box 444, Marietta, Ga. 30061; (404) 423-6045.

■ *Mike Henning's Family Firm Advisor.* Contact the Henning Family Business Center, 1006 N. Pembroke Court, Effingham, Ill. 62401; (217) 342-3728.

■ *Dream Weaving.* Contact Ron Eberhard, Business & Estate Planning Services Unlimited, P.O. Box 458, Grove City, Ohio 43123-0458; (614) 871-0114.

■ *Family Business Forum News.* Contact Carmen Ghiselli, Executive Director, The Family Business Forum, The University of Texas at El Paso, College of Business Administration, El Paso, Texas 79968-5045; (915) 747-5241.

■ *Legacies.* Contact Nancy Upton, Baylor University, The Institute for Family Business, P.O. Box 98011, Waco, Texas 76798-8011; (817) 755-2265.

■ *The Family Business Advisor,* published in cooperation with the Arthur Andersen Center for Family Business. Contact Business Owner Resources, P.O. Box 4356, Marietta, Ga. 30061-4356; 1-800-551-0633.

■ *Goshen College Family Business Newsletter.* Contact Leonard Geiser, Goshen College Family Business Program, Goshen, Ind. 46526; (219) 535-7451.

■ *Private Business Advisor.* Contact Dirk R. Dreux IV, U.S. Trust Co. of New York, 114 W. 47th St., Third Floor, New York, N.Y. 10036; (212) 852-1926.

■ *Crossroads.* Contact Dean Fowler Associates, 740 Pilgrim Parkway, Suite 300, Elm Grove, Wis. 53122; (414) 789-7367.

■ *Family Business Quarterly.* Contact Paul I. Karofsky, Director, Northeastern University Center for Family Business, 370 Common St., Dedham, Mass. 02026; (617) 329-8000, Ext. 8015.

So, take your choice. And remember to say that *Nation's Business* sent you. ■

PLANNING

A Thorny Issue: Personal Financial Security

By John L. Ward and Craig E. Aronoff

The most common complaint we hear from next-generation family leaders whose parents retain managerial control of the family business is: "The boss won't listen to me, won't let me implement my ideas, and won't invest in the things we need to be successful in the future."

These heirs apparent often perceive their parents' behavior very personally, often seeing it as a lack of respect, confidence, trust, or even love.

We got a clue to what was really going on under the surface when we saw a father and son arguing about an investment advocated by the son and resisted by the father.

"Dad, you understood risk when you were my age," said the son. "You made this kind of investment!"

"Right!" his father responded. "I took risks when I was your age. But I did it with *my* money. And now *you* want to do it with my money!"

Generational progress can be stopped in its tracks by issues related to personal financial freedom and security.

Moreover, lack of personal financial freedom often leads to personal decisions that compromise the business and the family—like a founder's refusal to transfer managerial control or stock ownership to the next generation even when it

PHOTO: T. MICHAEL KEZA

John L. Ward, left, is the Ralph Marotta Professor of Private Enterprise at Loyola University Chicago. Craig E. Aronoff holds the Dinos Chair of Private Enterprise at Kennesaw State College in Marietta, Ga. Both are family-business consultants.

clearly would be a good idea to do so.

We hear a similar message stated in other ways in family businesses. "Don't you dare risk my inheritance," says an outside family stockholder to his cousin, a third-generation chief executive. Another successor puzzles, "If I felt more financially secure, I wouldn't worry about whether or not I'm selling my soul."

All these expressions make the same point: If key owners don't feel they have personal financial freedom, family friction and business compromise are inevitable. The first time financial freedom becomes a priority for a family business is when the founding generation approaches retirement age. It's hard enough for founders to let go of the business they birthed, but it's even harder if they feel their exit makes them dependent on their kids for their security and their standard of living. Parents rarely turn over full control of the business to successors without feeling personally financially secure.

Thus, a key step in succession planning is to fund the parents' financial security. There are several possible approaches:

■ The company can fund an annuity over a long period of time.

■ The children can actually purchase some of the parents' stock, even if the parents are willing to leave it in their wills.

■ The company can aggressively provide bonuses to the parents until their "nest egg" is financed.

In each case, it's essential for the parents to specify the level of liquid assets and income that would let them comfortably and willingly leave the business.

Just as it is unhealthy for the senior generation to live off the business, successors who could not leave the business without destroying their lifestyles also create an unhealthy situation. Successors in this situation often feel they are compromised and have little dignity. On the other hand, we find that if successors have some personal financial independence, they are more forceful and effective leaders of the business.

Young successors have typically not yet accumulated assets sufficient to give them a sense of financial independence. Young people's greatest asset is their knowledge and ability, so they should seek independence by achieving the highest possible degree of personal competence.

At least one-fourth of all family businesses reach the stage when many family members own stock even though they don't work for the company itself. Nothing is more embarrassing and disruptive to a family business than family members who feel no power in day-to-day business operations and who feel stuck in their stock-ownership position. Before this situation develops, we urge family businesses to develop a plan and a formula for stock redemption.

Establishing A Stock Buyback Plan

Here is an example of a workable plan for stock redemption:

A company has seven family-member shareholders and $270,000 in after-tax profits. The company's policy allows family members to redeem their shares in any year up to no more than one-third of profits ($90,000).

ILLUSTRATION: DAVID CHEN

In this family firm, shareholders were looking forward to selling some stock. One wanted to redeem shares worth $40,000. Three others hoped to redeem $20,000 each. Because of the rules established by this family (you can establish whatever rules you wish), the company purchased $20,000 worth of stock from each of the three who wanted to redeem $20,000 and $30,000 (of the $40,000 offered) from the fourth family member.

In some businesses, funds not used this year can be carried over until next year. In other family businesses, whatever is not petitioned isn't held over until future years. This policy decision often rests on the family's instinct for people's eagerness to sell. ■

One approach is to set aside an annual pool of funds—as a percentage of profits—to repurchase any shares of stock offered. (See the box above.) We find that family shareholders are more likely to remain as satisfied owners if they believe they have an out—or at least a partial out.

When family-business founders, successors, or inactive owners feel dependent or trapped, the greatest potential for difficulties occurs. Financial freedom is really just a perception, but the sooner it's addressed, the less expensive it is to respond to. And the good news is that the more financially secure and free family members feel, the more committed they are to the business and the more successful the business is likely to be. ■

MARK YOUR CALENDAR

Feb. 4-6, Columbus, Ohio

"The Ohio Conference on Estate Planning for Family Businesses" is a weekend workshop sponsored by Ohio State University Extension and Business & Estate Planning Services Unlimited. Call Jim Skeeles, at (614) 653-5419 or Ron Eberhard at (614) 871-0114.

Feb. 22, Chapel Hill, N.C.

"Understanding Family Dynamics in Succession Planning" is a daylong seminar featuring Nancy Upton of Baylor University. Contact John Powell, director of the North Carolina Family Business Forum, P.O. Box 2888, Burlington, N.C. 27216; (910) 226-1380.

March 9, Goshen, Ind.

"Family Team Building," a daylong seminar, aims at helping participants develop long-term family strategies that focus on making the best use of everyone's talents. Contact Leonard Geiser of the Goshen College Family Business Program at (219) 535-7451.

March 11-12, Cleveland

"Culture, Leadership and Ownership: Managing the Three Keys to Success and Succession" is a workshop sponsored by the Family/Small Business Institute at Baldwin-Wallace College. Call Tom Monroy or Don Jonovic at (216) 826-5927.

April 26-27, Dedham, Mass.

"The 1994 Conference on Legal Representation of Family Firms" is a program for lawyers who represent family businesses as an active part of their practice. For information, call Debbie deCarvalho, Northeastern University Center for Family Business, (617) 320-8000, Ext. 8014.

How To Get Listed

This list of family-business events features national and regional programs that are open to the public. Send your item three months in advance to Family Business, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000.*

A Black Sheep Wants Back In

ILLUSTRATION: DAVID CHEN

Buddy wants forgiveness from his dad and uncle but isn't sure it is worth the price he will have to pay.

He grew up in the family construction company along with his cousin Hugh. But while Hugh was a straight-A student and football hero in high school and is now the emerging general manager, Buddy has always seemed to get into trouble. First of all, it was poor grades, then alcohol, and later drugs.

Two years ago, when he was 25, Buddy was fired from the family business—it was the second time he had been caught going on a drug holiday. He went to a treatment center and received additional counseling.

Now he feels his life is getting back on track. He has held a job at a local print shop and has been biding his time until he can get back into the family firm.

His dad and uncle, however, have told him they are not sure they can trust him again. Both former U.S. Marine Corps officers, they have recommended that Buddy "test his mettle" by joining the Marines himself. Once he has served successfully, they say, they might allow him to come back into the company.

Buddy doesn't want to join the Marines, but he does want to prove to the older generation that he is trustworthy. He desperately wants to get rid of his black-sheep image. Most of all, he wants to prove that he is as good as Hugh. Even if he becomes a Marine, there is no guarantee that the family-business door will open.

"Let me come back as a day laborer," he said. "I'll prove that I can work my way up." But his dad and uncle both say the Marine Corps is the only way back in.

Buddy has only a month to decide. How can he prove his trustworthiness to himself and his family without becoming a Marine?

Assess Real Career Desires

Buddy has discovered two disadvantages of growing up in a family-owned business:

First, everyone knows your entire life story, including all the problems you have ever had. This can be extremely difficult, if not impossible, to live down.

Second, it can sometimes be difficult for you to be perceived as an adult. For example, Buddy, who is 27 years old, is still known by his childhood nickname.

PHOTO: [illegible]

Karen Vinton, professor of management, Montana State University College of Business, in Bozeman.

It may take a long time for Buddy to regain the trust of his father and uncle, and I'm not sure that either working for the family business or joining the Marines is the best way to regain that trust.

Buddy needs to assess why he wants to work for the family firm and what he really wants to do. I would question whether he really likes construction.

Why has he been working for a print shop instead of another construction firm while he has been biding his time?

Has he pursued any specialized education or training in the construction field?

Does he want to work in the family business solely to prove he's as good as his cousin Hugh?

The answers to these questions may provide some guidance to Buddy. Going to work in the family firm for the wrong reasons might be damaging to both the business and Buddy. If Buddy needs help in addressing these issues, I would encourage him to seek professional counseling.

This may be a situation where a son is going to have to seek his own self-esteem and happiness—and the forgiveness and respect of his father and uncle—by making his way outside of the family business.

Adopt Long-Range Strategy

Buddy accepted responsibility for the consequences of his actions by seeking treatment for substance abuse.

Now he is just "biding his time," which puts him in a no-win situation.

Joining the Marines is risky for Buddy. In doing so, he is assured neither forgiveness nor a future in the family firm.

It will help Buddy to recognize that family-business successors often rely heavily on parents' assessment of their strengths and weaknesses, even though most parents either overestimate or underestimate their children's abilities.

PHOTO: [illegible]

Colette Lombard Hoover, family-business consultant and co-owner of LSi Resource for Family Business Management, Oakbrook Terrace, Ill.

Buddy would do well to find a position and an industry in which he has an interest and to set specific goals for himself.

This does not mean he must give up hope for future employment in the family firm. Experience outside the family business will give him the time and distance needed to "test his mettle," build self-esteem, and prove his "trustworthiness" through his accomplishments, with feedback from others outside the family on his strengths and weaknesses.

In three to five years, Buddy can—if he wishes—renegotiate employment in the family firm. If he chooses to do so, he will then have new understandings of himself and his family, and the family will have had time to see Buddy with greater objectivity.

If employment with the family is still not an option, Buddy will not have spent those years proving something to family members. Instead, he will have created a career path to his liking.

If the family-business door is open, however, the family, the firm, and Buddy will benefit by moving beyond holding grudges that damage family relationships and the business as well.

This series presents actual family-business dilemmas, commented on by members of the Family Firm Institute and edited by Mike Cohn, president of The Cohn Financial Group, Inc., in Phoenix. Identities are changed to protect family privacy. The authors' opinions do not necessarily reflect the views of the institute.

MANAGING

Company Alliances For Market Muscle

To be globally competitive, small U.S. firms are reaching out to one another, so grab your vertical partner and go "teamnetting."

By John S. DeMott

PHOTO: ©BRUCE ZAKE

Representing *four of 15 Erie, Pa., companies teamed for market penetration are, from left, Steve Wright, president of D&E Machining; Harry Brown, CEO of Erie Bolt; Ron Scott, a manager at Champion Bolt; and Ron Wasielewski, a technical specialist at Erie Industrial Supply.*

When Harry Brown took over as CEO of Erie Bolt, in Erie, Pa., a decade ago, sales were plummeting, and employee morale was low. Now, reborn as EBC Industries, with Erie Bolt as a vigorous division, the company's sales have doubled, to $7.2 million, on products ranging from circus tent stakes to exotic fasteners for the aerospace industry. Employment is at 90, up from 42 in the early 1980s.

Although many factors contributed to EBC's revival, one that was critical is called "teamnetting." For EBC, teamnetting meant joining with 14 other area companies to give itself more muscle to tackle domestic and global markets. EBC and the other team members share equipment, customer lists, and other information that entrepreneurs never would have dreamed of sharing in the old days, when cooperation was a dirty word. The result is that the 15 companies go after more business than they ever could have without their team approach.

Tough times gave birth to teamnetting. Years ago, says EBC's Brown, "small business had enough business. If I have this coming through the door, why should I look at alternatives? You only do things a lot differently if you're forced into a situation where you don't have a lot of alternatives. We did because we didn't have any choices. We were looking just for survival."

Teamnetting, or networking, is just one of several relatively new growth techniques being tried by small and medium-sized U.S. companies. EBC Industries rates a mention in a new book, *The TeamNet Factor* (Oliver Wight Publishing, Essex Junction, Vt.), by Jessica Lipnack and Jeffrey Stamps, a husband-and-wife research team in West Newton, Mass. In the book, they show how small U.S. and foreign firms are joining to do what none of them could do individually.

To the authors, teamnetting spells the dawn of a new age of industrial energy—one that will "break allegiances to a single internal hierarchy," forge new intercompany bonds, and lead in their ultimate form to "economic megagroups."

They do concede, however, that teamnetting provides "formidable challenges to management."

On that point, consultant Tom Peters

(*In Search of Excellence* and *Liberation Management*), whose endorsement appears on the jacket of *The TeamNet Factor*, certainly agrees. "It's harder than hell to manage one of these things," he said in an interview. "You are trying to bring to bear the power of various autonomous people, and the autonomous small company has even more ego at stake than the average unit manager within the corporate hierarchy. The potholes in the road are large in number." But the payoff can be larger markets and bigger profits.

Like Erie Bolt, Advanced Circuit Technology (sales about $18 million), a Nashua, N.H., maker of systems that connect electronic components, is looking to build teams, too. Last spring the company's CEO, Joseph "Jody" Roberts, and nine other regional manufacturers who don't compete with each other formed an organization called Team Nashua to make and sell electronic components.

Roberts has personally secured three contracts and shared them with other team members, who are bound by confidentiality agreements not to disclose customer lists or other such information to anyone except other team members.

Small companies are also benefiting from an approach similar to "teamnetting," called "vertical partnering," in which small suppliers form complex bonds with large companies to their mutual advantage. A widely known spokesman for the concept is Jordan Lewis, author of the forthcoming *Customer and Supplier Alliances: The Missing Link in Corporate Strategy* (Free Press-Macmillan).

Says Lewis: "As companies get into more and more difficult competitive situations, they're trying to cut costs and cycle times any way they can." But if companies do this by threatening suppliers, he says, those suppliers will migrate to other companies that are not as heavy-handed. That "messes up the supplier base," says Lewis, which worsens competitiveness for all. So good customer-supplier relationships are vital to competitiveness.

For small companies in particular, such partnering is seen as a way to stretch and extend a company's horizons, even to reinvigorate the business.

That's how Bruce Bendoff sees it. He's CEO of Craftsman Custom Metal Fabricators Inc., in Schiller Park, Ill. The firm has 125 employees and sales of about $12 million a year. Schiller, which is a big supplier to Motorola, Inc., makes parts for the electronics industry—things like metal card cages to hold circuit boards inside computers and medical diagnostic equipment.

Bendoff says his biggest challenge is "just moving fast enough to be a 'best-in-class' company."

The partnership with Motorola makes Bendoff speak of his company as if it were brand new, even though he's been with it 20 years. "We've got to be buying the best equipment there is available, constantly retraining employees, training new hires. We get up every morning and figure out what we can do to make a dent in the overflowing plate. . . . The goal is to be as close to perfect as we can."

Motorola has played a powerful role. A half-dozen years ago, it told its suppliers they would have to get their acts together sufficiently so that they would be good enough to at least apply for the Baldrige Award, the national quality-management honor presented annually by the U.S. Department of Commerce. Now Craftsman is applying on its own.

> "You only do things a lot differently if you're forced into a situation where you don't have a lot of alternatives."
>
> —Harry Brown, CEO, Erie Bolt

By no means Motorola's dependent supplicant, Craftsman is "driving its own programs," says Bendoff. Among other things, he says, it holds frequent employee meetings to explain what's being expected of the company. "We're firmly in a global struggle. And the only way companies our size, or any size, are going to exist is if you satisfy your customer."

Vertical partnering, asserts Bendoff, is definitely not hurting the entrepreneurial spirit and might even be helping it by "assuring me that there is business. And you are in a different kind of risk relationship. The risk here is will your customer—Motorola, for example—be successful on a given product that you are working with them on to bring to market."

Both vertical partnering and teamnetting carry another risk—that of losing trust. Says Peters: "Trust is the key. If the companies don't have it, they're not going to make it with each other." Says Bendoff: "If you put two companies together, and all the people on all the levels don't want it to be successful, it's not going to be successful."

One way to avoid that, Bendoff says, is to mix supplier workers with those of the customer at every reasonable opportunity, so employees are dealing with names, faces, and real people. He himself will soon see how it all works—from the other side.

He's in early negotiations with another company to which Craftsman would be the senior member in a vertical partnering arrangement. NB

Tips On Linking Up

If you're happy with the way your business is growing, then you probably don't need new partners. But if you sense you're missing opportunities because you can't take advantage of them by yourself, it could be time to start thinking about linking with other companies in and around your industry.

Jessica Lipnack and Jeffrey Stamps, authors of *The TeamNet Factor*, have come up with a checklist to help small businesses form networks that offer mutual benefits for partners:

- Telephone business friends, even a couple of competitors, to explain the idea. Use this first contact to determine what you have in common and in what areas you can work together.
- Arrange a meeting, possibly at your place of business. Explain what you do and how you do it. Conduct a tour of your facilities.
- Start simple, with easily understood objectives like buying office supplies or uniforms together, or swapping production machinery. But begin moving toward developing a joint project or a product.
- When you've decided what you want to do, move swiftly to develop an action plan that spreads the work around. Exclude no one. Make everyone a participant.
- Keep up the momentum. Hold frequent meetings in the offices and plants of the other team members. Include mid- and lower-level employees so names become attached to faces.
- After the project is well under way, begin thinking about sharing customer lists and other information that will facilitate the marketing of the product. Share only what is necessary.
- Talk to other business people in other industries and other cities about what you are doing. If they show an interest, arrange meetings for them, too.

Lipnack and Stamps stress that, just like athletic teams, company teamnets are successful only when the players trust each other. They suggest acting thoughtfully and being sensitive to the attitudes and goals of each team member.

Hard Data On Franchises

The FTC is expected to implement revisions in the document that provides key information for franchisees.

By Andrew J. Sherman

If you are an aspiring entrepreneur who is thinking of buying a franchise, the U.S. Federal Trade Commission is about to make your search a little easier. The FTC is expected this spring to implement changes it recently approved in the Uniform Franchise Offering Circular (UFOC).

The offering circular's current 23-section format details the company, its franchisees, and any pending litigation involving the company, and it includes a forecast of franchisees' earnings. The changes will require more information from franchisors and will make the data easier to understand.

The federal government requires franchisors to furnish this information to serious, qualified franchisee candidates. In addition, franchisors are required to file this document with at least 12 states, which are expected to approve the changes later in the year.

The offering circular was adopted in 1975 by the North American Securities Administrators Association, which is a quasi-governmental agency made up of securities commissioners from the 50 states and the provinces of Canada.

Over the years, many franchisees and some franchisors have complained that the 1975 version of the document was outmoded and should be revised. Franchisees were especially dissatisfied; many said the offering circular was difficult to understand, contained legal jargon, and lacked some essential information.

In response to these criticisms, the securities administrators' association set out to redraft the offering circular. Rep. John J. LaFalce, D-N.Y., chairman of the House Small Business Committee, conducted hearings on the subject in 1992 and 1993. After several years of review and redrafting, the securities administrators' association approved the new offering circular in April 1993.

The changes include a tabular format and a cost forecast to help prospective franchisees predict how their venture will fare. And under the mandate for plain English, "heretofores" and "parties of the first part" give way to "before" and "we."

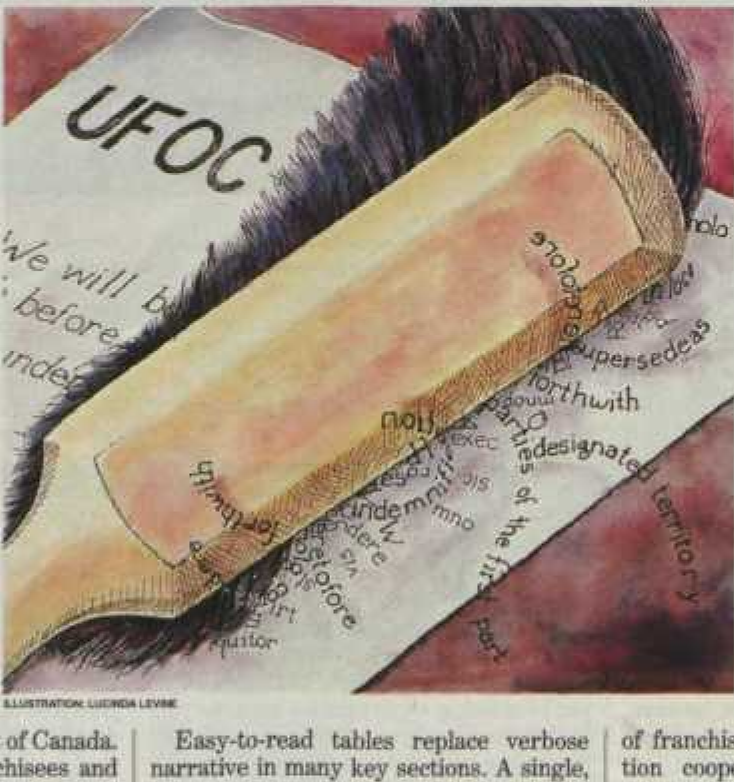

ILLUSTRATION: LUCINDA LEVINE

Easy-to-read tables replace verbose narrative in many key sections. A single, multistate disclosure form is used to make it easier for franchisors selling locations in more than one state. In the past, many states had their own forms.

Here are some of the changes:

■ Franchisors must explain how they advertise, including amount spent, type of media used, and extent of coverage.

■ Franchisors must explain their training programs, including subject matter and time frame. The table of contents from the franchise operating manual and the instructions for operating the franchise must be provided.

■ Franchisors are responsible for providing information on regulations that are specific to the company's industry. This information is supplied to help franchisees understand what laws or regulations might affect their ability to open and operate a franchise.

■ To give franchisees realistic and more detailed information about the cost of a new franchise, franchisors must provide franchisees with reasonable forecasts of prospective payments, not only to the franchisor but also to third parties, such as vendors.

■ Franchisors must disclose their affiliates that are "controlled, controlling, or under common control with the franchisor."

■ Any litigation that involves or involved the franchisor must be disclosed. The only litigation that can be omitted is that which the UFOC defines as "ordinary routine litigation incidental to the business." Any litigation dealing with violations of securities law must be disclosed.

■ Franchisors must disclose their financial interest—their total revenues, rebates, commissions—in any purchases they require of franchisees. Purchasing and distribution cooperatives must be identified, along with any benefits to the franchisee for using the designated sources.

■ Financing arrangements must be disclosed in greater detail; these include indirect offers of financing, such as a franchisor's receipt of commissions from lenders in exchange for franchisee financing. The franchisee's potential liabilities upon default must be disclosed. Copies of any financing documents must be attached to the offering circular as exhibits.

■ The new UFOC adds a section devoted to 24 types of possible franchisee obligations, such as site selection, preopening purchases, training, insurance, and advertising; they are shown in tabular format. In the past, prospective franchisees had to consult the franchise agreement to understand their obligations. NB

Andrew J. Sherman is a franchise attorney with the Washington, D.C., law firm of Silver, Freedman & Taff and author of five books on franchising subjects. Susan Bald, a law clerk with the firm, helped prepare this article.

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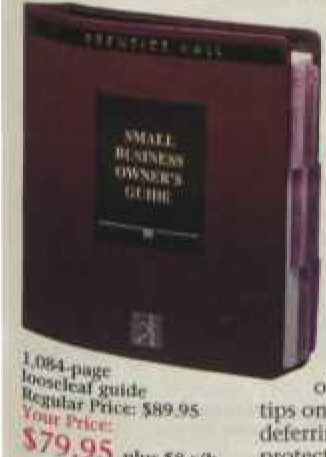

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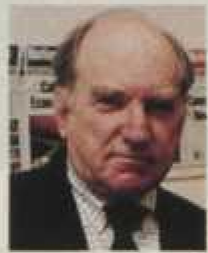
A Message From The Editor Of *Nation's Business*



In addition to providing immediately useful information to readers, we also make a special effort in our editorial content to alert them to additional resources that will help them improve productivity and profit. These resources include the type of products and programs described on these pages.

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Each of these products meet the same rigorous standards we established for *Nation's Business* magazine. Our staff has spent months—in conjunction with outside consultants—reviewing, rejecting, and recommending products. Those that meet our expectations appear on these pages.

I urge you to examine these programs, courses, and tutorials. They can spark ideas, techniques, and even sales. These products can make a major difference! And every one comes with our 100% satisfaction-guaranteed pledge: If you don't get what you want from it, you can return it for a no-questions-asked refund or cancellation of your credit card charges. You can't miss with *Nation's Business!*

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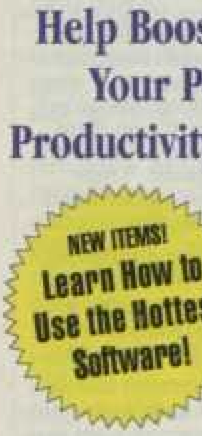

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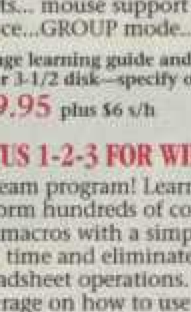

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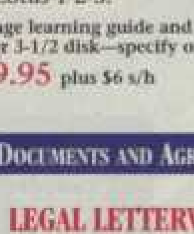

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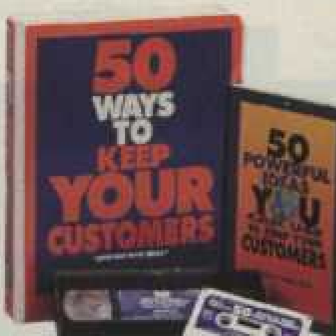

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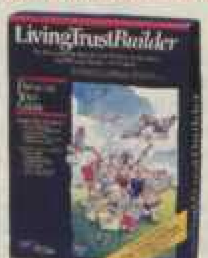

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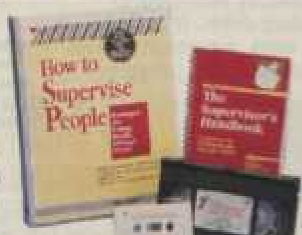

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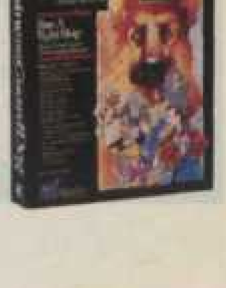

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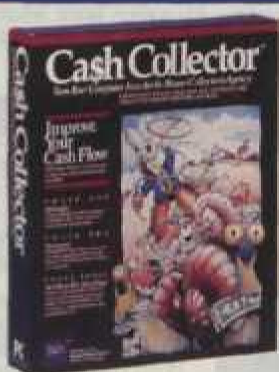

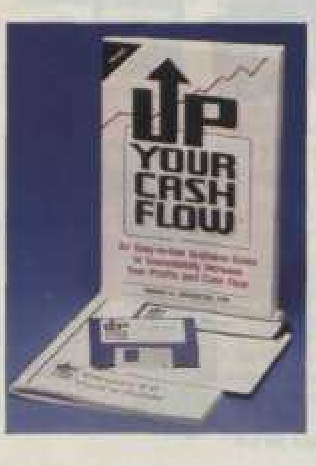

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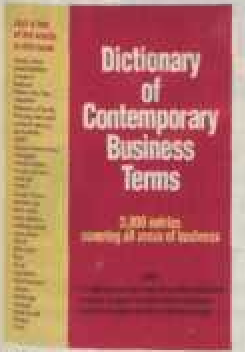

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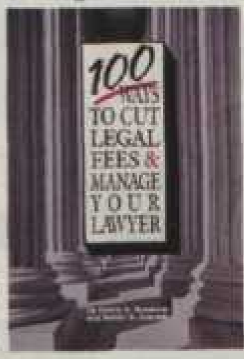

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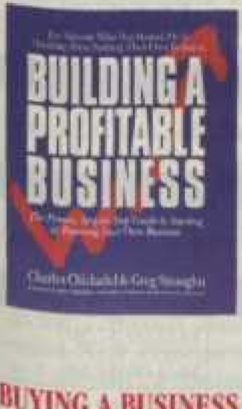

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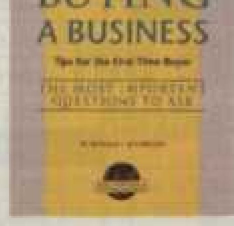

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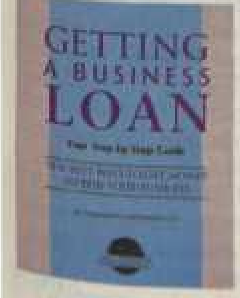

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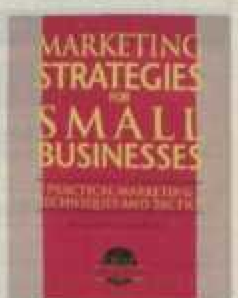

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MANAGING

Put Your Purpose In Writing

A mission statement can give your company the focus it needs for survival and growth.

By Sharon Nelton

When Richard G. Haworth succeeded his father as president of Haworth, Inc., in 1976, one of the first things he did was see to the creation of a mission statement, called "The Haworth Creed," summarizing the company's standards and goals.

At the time, the Holland, Mich., manufacturer of office furniture had 250 employees and $14 million in annual sales. Today, the company has 7,000 employees worldwide and annual sales of more than $800 million.

While having a mission statement isn't the only reason for Haworth's impressive growth from a small company to a global one, its leaders believe a mission statement provides a focus for a company—whatever its size.

"We feel a mission statement lays it right out there as to the kind of company we are and what our principles are and what our objectives are and how we want to work," says Gerald B. Johanneson, who succeeded Richard Haworth as president in January, when Haworth became chairman.

Early last year, Haworth introduced a revised mission statement called "Our Principles," modernizing and simplifying the language so that it is more readily understood around the globe. Haworth now has facilities in more than 20 countries and has 800 dealers worldwide.

Many business owners agree that a mission statement is the tool that can get everyone in the company going in the same direction. Just as important, developing a new or revised mission statement forces managers to think strategically.

"It's a very helpful process in that it makes you sit back and focus on things outside the day-to-day, filling-the-order kind of mentality," says Alan Blazar, president of Blazing Graphics, a graphics production company in Cranston, R.I. The process makes you look at what's happening in your industry, he explains, and "gives an opportunity to look at the long-term situation."

According to Burt Nanus, author of *Visionary Leadership* (Jossey-Bass,

Solicit ideas from employees *when devising a mission statement, urges Blazing Graphics' president, Alan Blazar, center, here with the company's general manager, Mark Worrall, left, and color supervisor Ray Gagne.*

The Mission Statement
Blazing Graphics, Cranston, R.I.

Blazing Graphics will provide you with the most effective visual communication attainable. We will help you achieve all of your goals while providing you with the greatest value both seen and unseen.

Here at Blazing Graphics we will take the time to do things right. We do this by controlling the entire graphic arts process. This enables us to better coordinate each job while providing a higher level of service.

Our mission is to ensure exceptional quality by opening up communication between crafts normally separated and at times adverse to one another.

Here at Blazing Graphics we have committed ourselves and our resources to being on the forefront of technology.

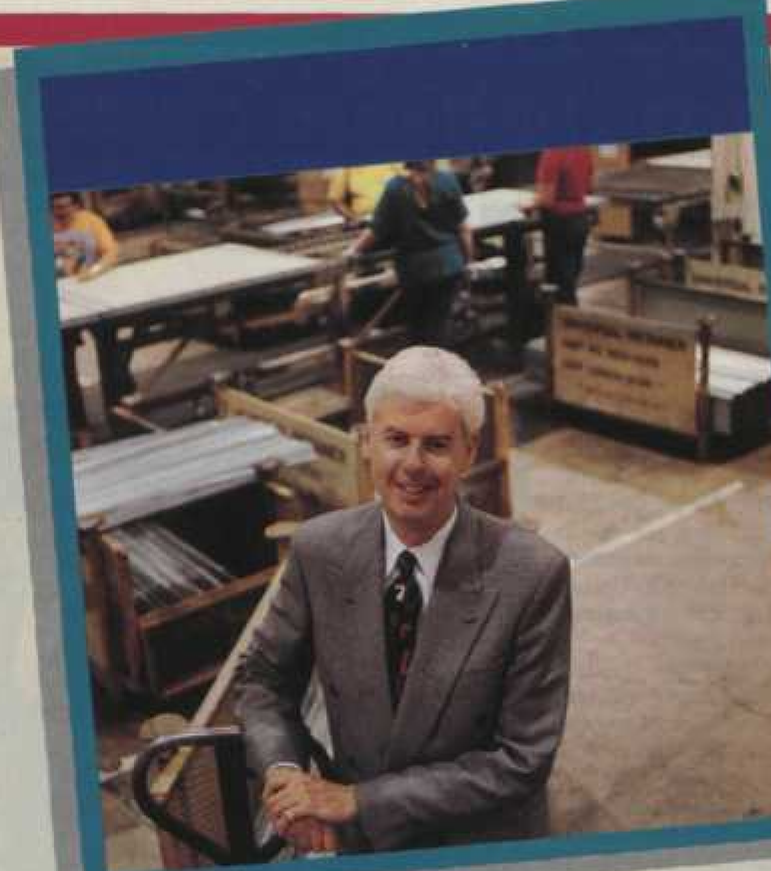
Creative technical know-how is the single most critical determinant of economic competitiveness.

It's our real belief that together we can create an environment that will be both personally and professionally fulfilling for all the people who make up the Blazing Community.

Our Principles
Haworth, Inc., Holland, Mich.

Haworth, a family company, is a world leader in the contract furniture industry. Our vision is to be world class in the eyes of our customers at creating well-designed, effective, and exciting work environments. The principles upon which Haworth was founded and continues to operate are presented in this statement. The success of our company testifies to their enduring value.

Haworth competes enthusiastically in a free enterprise system. Our style is aggressive and our practices honest; our conduct is legal and ethical. We are motivated by a fair return on investment and are committed to strengthening the company through reinvestment. We believe that customers will be attracted by what we offer and this will ensure our continued success.



Haworth's updated statement *reflects the furniture maker's emergence as a global company, says its president, Gerald Johanneson.*

Customer Satisfaction
To completely satisfy our customers is our primary mission. We listen to our customers and understand their changing needs. We achieve their satisfaction by quickly translating their needs into products and services that are world class and that emphasize quality, design, innovation, and value. We are convinced that the success of our business depends on satisfied customers. We believe that our customers are best served through a strong dealer network. Haworth dealers aggressively represent us and offer a range of complementary professional services to our customers. Our dealers collaborate with us to forge customer-satisfying teams. Our dealers are also our customers, and we are committed to their satisfaction.

The People Of Haworth
Haworth members are the most important resource of our company. The diversity of their races, genders, talents, and personalities enables us to be more innovative, dynamic, and flexible. Our members endorse the practice of continuous improvement, believing it offers the best path to pride in their work, greater job security, customer satisfaction, and success for our company. Our corporate culture offers a participative environment that supports teams and individuals. Haworth encourages member development and achievement through recognition, rewards, and opportunities for career growth.

Dedication To Quality
In order to achieve total customer satisfaction, Haworth methods of operation are shaped by our dedication to quality. Corporate-wide quality initiatives result in superior products and services for our customers. At Haworth we combine smart thinking with hard work to eliminate wasted time, effort, and materials. Our philosophy of continuous quality improvement is embraced by suppliers and dealers. They share our commitment to total customer satisfaction and quality. With them, we create a seamless flow of quality products and services to the end user. Our philosophy of quality includes the preservation of our environment and the protection of resources. Our pursuit of quality extends to our communities, where we build for the future by investing in the quality of life.

1992), a mission statement defines what an organization has been established to accomplish, delineating products and markets and, in some instances, going further to state a company's creed or values, its operating philosophy, or its major goals.

While some business leaders, like Johanneson, use "vision" and "mission statement" interchangeably, others do not. Blazar says Blazing Graphics' mission statement, conceived in 1992, expands on the 10-year-old company's original vision of bringing various graphics trades—design, engraving, photography, and printing—under one roof to service the high end of the advertising market and of being "the best graphic-arts producer in the industry bar none." The new mission statement is broader, calling, for example, for creating "an environment that will be both personally and professionally fulfilling."

Blazing Graphics, which employs 75 people and brings in $8 million in annual revenues, was a 1993 state honoree of the Blue Chip Enterprise Initiative. The initiative is a program sponsored annually by the Connecticut Mutual Life Insurance Co., the U.S. Chamber of Commerce, and *Nation's Business* to recognize small companies that have overcome challenges and emerged stronger.

Developing a mission statement helped turn around Healthtex, an ailing children's-clothing company that was purchased by VF Corp. in 1990. A year after the purchase, says Healthtex's president, Gary F. Simmons, the company's managers felt they needed to put in writing what Healthtex wanted to do and who its target customers were. The statement in part reads: "Healthtex will be the most responsive kidswear company in understanding and meeting the needs of targeted consumers and retailers with basic and basic fashion everyday playwear that lasts."

The company, based in Greensboro, N.C., identified its primary customer as a mother of children, newborn to 6 years old, who shops for everyday playwear in

middle-market department stores and national children's specialty chains. Healthtex also determined specifically what kinds of clothing the company would make.

"The goal here is that everybody—be it a machine operator, a designer, or the head of human resources—is thinking in a similar vein," Simmons says. "It doesn't mean they all think alike, but at least they all have a central core belief of what this company's trying to achieve."

Healthtex has experienced 40 percent growth in each of the past two years, and its annual sales range from $100 million to $150 million. "We now are a profitable company and are now moving forward very nicely," Simmons says. The mission statement has helped, he says, by getting different groups of people within the company to focus on a strategic direction.

Gerald Johanneson says Haworth, Inc., has been able to win new business as a result of its mission statement. When potential corporate clients visit Haworth headquarters, Haworth's presentations to them include a discussion of the company's mission by company officers. As a result, some visitors decide to place an order because they think Haworth is the kind of company they want to do business with, Johanneson says.

He sees the mission statement as a key communications tool. When a business is small, he says, it tends to attract entrepreneurial employees—"people who have their own mission, so to speak, or their own agenda." And the owner or manager, believing everyone knows what he or she thinks, may be under the impression that communication is better than it actually is. In such a situation, Johanneson says, a mission statement can make the company's purpose and objectives clear and give everyone in it something to relate to.

Healthtex's Gary Simmons also points out that a mission statement enables different groups within a company—marketing, finance, merchandising, human resources, and the like—to have not only a similar vision but also similar expectations. In his company, for example, the finance people know that because of the kind of product the company makes and the kind of customer it has targeted, margins will be reasonable and markdowns will be few.

Because it speaks to helping clients achieve their goals, Alan Blazar says, his company's mission statement has helped create a "partnering attitude" instead of an adversarial relationship between Blazing Graphics and its customers.

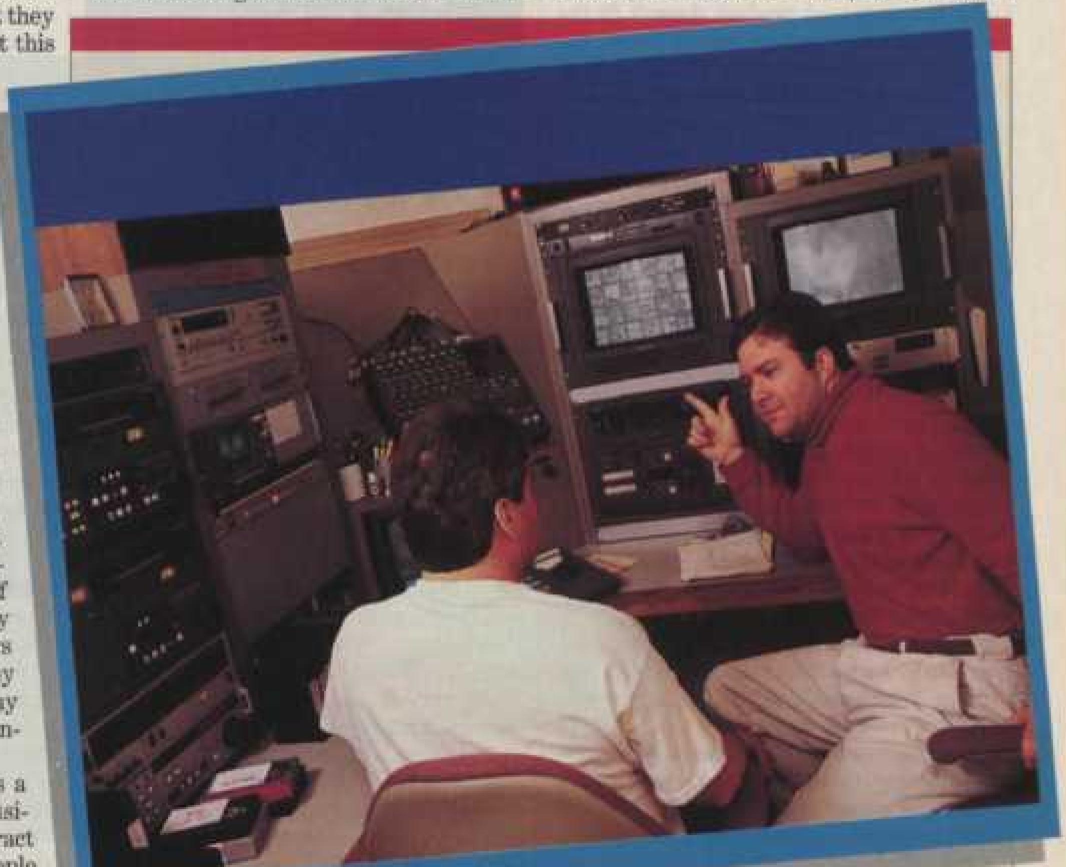
The experiences of these businesses show that a company can benefit when its focus is sharpened by a mission statement. If you think a mission statement might be helpful to your business, here are some suggestions to consider in creating one:

Invite ideas from others. Alan Blazar wrote his original draft himself before passing it around to his supervisors for comments and then rewriting it. But if he had it to do over again, he says, he would first ask his supervisors for their ideas as well as suggestions from all their employees.

Taking the second approach, he says, would more accurately reflect the entire company rather than just what "the boss" thinks. Once the boss has written a mission statement, he points out, employees hesitate to contradict or change it.

Offer a purpose around which employees and others can rally. So advises Charles Garfield, an expert on "peak performance," in his book *Second To None* (Business One Irwin, 1992). "Mission statements are never about bottom-line goals (though they directly affect the bottom line)," he writes. "Profit is not a value around which employees are likely to rally." Instead, he says, your statement should incorporate values that are worthy of your employees' best efforts.

A mission statement, Blazar says, "sends a message to employees, suppliers,



Getting people focused *on the same goal is one function of a mission statement, says Geordy Wells, right, president of Lunar Productions.*

Mission Statement
Lunar Productions, Inc., Memphis, Tenn.

Honor God in all we do.

Provide excellent and affordable corporate video, audio/visual, and broadcast production services to our valued clients.

Communicate with our clients and fellow employees as effectively as we communicate with our audiences.

Make a fair profit.

and customers as to what the purpose of the company is aside from just making profits."

Consider the ripple effect that your statement will have on company policy and behavior. Simmons has found that having a mission statement assists in decision making at Healthtex. For example, if a proposed product doesn't fit the corporate strategy or cannot meet the quality standards embodied in the mission statement, Healthtex won't produce it.

Outgrowths of Haworth's new mission statement have included the issuance of policy statements affirming the company's commitment to a diverse work force and to the environment.

Let your statement reflect current direction as well as lay the groundwork for the years to come. In many respects, writing a mission statement is committing to paper what you already know about your business and its purpose. At the same time, it serves as a guideline for the future.

As Simmons explains, if you are starting a company, you don't develop the mission statement first. You have to determine who your customers are, why you are selling to them, what channels you will use, and other matters before you devise your mission statement, he says.

Encompass your company's culture. In addition to being a statement about strategic direction, a mission statement sets down the values that a company's managers hold dear. "Honor God in all we do" is the first point in the mission statement of another state Blue Chip enterprise, Lunar Productions, Inc., a Memphis, Tenn., corporate-video production company with seven employees and $800,000 in annual sales. Because he's a

"The mission statement is not something that's set in stone. The mission keeps changing and growing as we grow."

—Alan Blazar, President, Blazing Graphics

Christian, says Geordy Wells, Lunar's president, he wanted to include that point to reflect that the company abides by honest, ethical business practices.

Companies express their values in their mission statements in a variety of ways. A Southern car-rental company includes ending world hunger as part of its mission, for example, and a Midwest hospitality firm states that it wants customers to "experience a quiet spot in the country" because of the owners' conviction "that God desires all His creation to live in harmony."

Keep your audiences in mind. They may include employees, shareholders, family members, suppliers, customers, your community, and others. Your statement has to communicate to each group.

You may find, as Haworth did, that as the marketplace becomes increasingly global, you will face the challenges of communicating effectively in different cultures and languages. Haworth's principles are now available in Spanish, French, German, and Italian as well as English, including a special English version for the British market.

Be brief. Lunar Productions' mission statement is a mere 41 words. At about 440 words, the revised Haworth mission statement is about 120 words shorter than its predecessor. Haworth's officers had found that when they made presentations on the old mission statement to employees and customers, they would lose their audience because the statement was just too long and had too many sections—11 in the old version, compared with four in the new. By shortening and simplifying the statement, Johanneson says, "it more clearly states exactly what our focus is."

Review your statement periodically, and revise it as necessary. "If you change your strategy, you must change your mission statement," Simmons says. "They tie together." Healthtex's mission statement is reviewed once a year as part of the company's annual strategic-planning process, but Simmons says that it's probably better to review the mission statement informally even more often.

"The mission statement is not something that's set in stone," Alan Blazar says. "The mission keeps changing and growing as we grow."

Once you have created your mission statement, put it to use. Blazing Graphics displays its mission in every department as well as in its lobby and has published it as an advertisement in a trade magazine.

Some companies make a discussion of their mission statements part of the orientation for new hires. Others use theirs as a means to educate such constituents as customers, dealers, suppliers, stockholders, and their communities.

If people just talk about a mission statement and don't use it, creating it is a waste of time, Gary Simmons says. "If you really use it, then it's something that I think is wonderful." NB

To order reprints of this article, see Page 72.

The Media For Your Message

Say your mission statement is completed. Now what?

Before you can actually make use of it, it needs to be put into some medium to carry the message. And businesses are very creative about this.

You can be, too.

The statement devised by Healthtex, a Greensboro, N.C., children's apparel company, is so short that it has been put on a plastic card that can be easily carried in a wallet.

Blazing Graphics, a Cranston, R.I., graphic-arts production company, has turned its mission statement into a colorful, eye-grabbing poster—fitting for a company that depends so much on the appeal of visual images.

Haworth, Inc., has printed its mission statement in an elegant, 8½-by-11-inch, trifold, quality-paper brochure—a step up from the two-color, one-sided sheet that the Holland, Mich., office-furniture manufacturer used to use.

ATS Telephone & Data Systems, Inc., of Memphis, Tenn., chose videotape as a means to communicate its mission statement. Just under six minutes in length, the video features corporate managers discussing the four short elements of the mission statement:

- "Honor God" (follow the golden rule);
- "Deliver innovative business communications with more than expected value" (go the extra mile for the customers, providing quality and not waiting for the competition, explains one executive);
- "Inspire our employees to grow to their potential"; and
- "Make a fair profit."

One ATS executive notes that honoring God is at the top of the list while making a profit is at the bottom. But the tape acknowledges that, just as a human being has to breathe, a company has to make a profit in order to exist.

You need not limit yourself to just one medium for your mission statement. You can use posters, cards, fliers, slides, and just about anything you can name. CD-ROM, anyone?

LEGISLATION

A Move To Curb Immigrant Visas?

Proposed restrictions would make it harder for companies to bring from abroad certain highly skilled employees they can't find at home.

By David Warner

Wendy Bosley, a computer-software specialist who immigrated to the United States from England in the mid-1980s, was instrumental in the growth of Applied Software Technology Inc., says Richard Burroughs, president of the Atlanta-based company. "A particular product area was her specialty, and that product carried us through our growth."

If proponents of certain immigration restrictions and legislation have their way, Burroughs may find it difficult to hire a person from overseas for a critical job opening he has now.

After months of searching futilely for a U.S. citizen with the needed skills, Burroughs is again looking overseas. He has found a South African who is qualified, but he may have trouble obtaining a visa for the foreign specialist because of recent efforts—especially by the Labor Department—to cut immigration.

PHOTO: ©MICHAEL A. SCHWARZ

British immigrant *Wendy Bosley's computer expertise helped Applied Software Technology grow, says Richard Burroughs, president.*

The Labor Department oversees the H-1B program, which allows U.S. companies to hire foreign professionals for up to six years. The program is similar to the one that enabled Bosley to enter the United States to work for Applied Software Technology.

In 1988, three years before her six-year visa was scheduled to expire, Bosley was picked in an Immigration and Naturalization Service lottery to become a U.S. citizen. She now provides technical sales support for the 40-employee company.

Meanwhile, rising public furor over immigration—particularly illegal immigration—in the face of a slow-growing economy has put pressure on the Clinton administration. Recent public-opinion surveys, including a Gallup Poll, have found that U.S. citizens believe immigrants take jobs from them and use a disproportionate share of social services.

At a news conference last July, President Clinton announced efforts to address illegal immigration, including increased border patrols, and he pledged that the efforts "will not make it tougher for the immigrant who comes to this country legally, lives by our laws, gets a job, and pursues the American dream."

But recent Labor Department actions on H-1B visas suggest that the administration may, in fact, be clamping down on legal immigration. Labor Secretary Robert Reich has proposed regulations that would allow his agency to investigate the validity of a company's assertion that it needs an H-1B visa when the firm files a required labor-condition application, which shows that the company will pay the immigrant worker the prevailing wage for his or her job category.

Under the 1990 Immigration and Nationality Act, which set the number of H-1B visas at 65,000 a year and required that prevailing wages be paid to temporary immigrants, the Labor Department may conduct such investigations, but only if a complaint is filed charging violations of the prevailing-wage provision. The department also would impose additional paperwork requirements on firms seeking H-1B visas.

The Labor Department's moves follow allegations that companies are using the visas to hire immigrants willing to be paid at rates below the prevailing wage—and below the level that U.S. workers would accept.

But such abuse "is negligible," says Daryl R. Buffenstein, head of the national immigration practice for the law firm of Paul, Hastings, Janofsky & Walker, in Atlanta. "If the Labor Department is concerned about abuse, then it ought to make better use of its existing enforcement procedures."

Buffenstein says that businesses are worried that current workers might have to stand idle because the new H-1B regulations and paperwork requirements would make it more difficult to bring in foreign specialists on a timely basis. "The whole point of the H-1 visa is speed and efficiency in getting a person here," he says.

Burroughs says hiring the skilled South African worker he is now considering would enable Applied Software Technology to hire as many as four additional employees over the next 12 to 18 months.

The Labor Department contends that the ability to investigate abuses of the H-1 system will act as a deterrent and that it wants to protect U.S. workers. Critics, however, say another motive may be found in the department's request to Congress to amend the 1990 immigration statute. The department wants companies to affirm that they have not laid off U.S. workers and that they are training U.S. citizens for the occupational classification for which they are seeking H-1B visas.

Most companies would be hard-pressed to meet those qualifications, says Buffenstein, who points out that most H-1B workers are specialists whose skills companies need immediately—and usually on

a one-time basis—and have been unable to find among U.S. workers. He says the new requirements would result in fewer H-1B visas to employers.

And that seems to be the goal of the Labor Department. In a letter to Rep. Romano L. Mazzoli, D-Ky., who chairs the House Judiciary Subcommittee on International Law, Immigration and Refugees, Labor Secretary Reich said that in addition to requesting the amendments on the H-1B system, the department will be "considering a proposal for a much broader range of changes to this program."

Among those changes is expected to be a requirement that employers seeking H-1B visas conduct labor-market tests for U.S. workers, a requirement now applicable to permanent business visas, known as E-B visas.

"The Labor Department is making it tougher on H-1Bs," says Michael Maggio, an immigration attorney with the Washington, D.C., law firm of Maggio & Kattar.

The same could be said for permanent business visas. The 1990 Immigration and Nationality Act raised permanent business visas to 140,000 a year from 50,000 and broadened some worker classifications to make it easier for companies to bring immigrants to the U.S. The law increased total immigration visas to 900,000 a year from 600,000.

PHOTO: T. MICHAEL KEZA

Labor Secretary *Robert Reich has proposed investigating companies' visa needs.*

To receive a permanent business-related visa, though, a company must certify to the Labor Department that no U.S. workers are willing, able, and qualified for the position the company wants to fill. Generally, after having spent time and money to search the U.S. labor market for workers and then to file correctly for an E-B visa, companies' requests had been granted more than 90 percent of the time, according to Labor Department figures.

That number may be too high for the Clinton administration, and there are indications that the Labor Department has directed its regional labor-certification offices to deny more cases.

Although a company can appeal the denial of an E-B visa to the Labor Department's Board of Alien Labor Certification Appeals, the appeals process is now taking almost two years.

"There has been a noticeable change in attitude at some of the regional Labor Department [visa] offices," says Jessica Vaughan, assistant director of the Center for Immigration Studies, in Washington, D.C. "They're being much more stringent and more aggressive and more demanding of employers to justify applications that they make on behalf of aliens."

There also seems to be a shift in Congress, which just three years ago relaxed immigration rules.

Sen. Harry Reid and Rep. James H. Bilbray, Nevada Democrats, introduced legislation that would, among other things, cut legal immigration visas to 300,000 a year.

A bill sponsored by Rep. Lamar S. Smith, R-Texas, would tie the yearly legal-immigration visas to the national unemployment figure. Smith's measure would decrease or increase the annual number of immigration visas depending on whether the unemployment rate went above or below 5.5 percent, which was the rate in 1990 when the immigration numbers were increased.

Critics of the bill point out that although the nation's overall unemployment rate may be high—currently about 6.4 percent—it doesn't mean that certain areas of the country or certain occupations aren't experiencing labor shortages.

"I don't think that bill is going anywhere, but it's a good example of how the climate is not favorable for business immigration," says Buffenstein, the immigration lawyer, referring to Smith's legislation.

That climate is expected to become less favorable as the debate over immigration, both legal and illegal, heats up during the coming months.

Employers, Buffenstein says, should let Congress and the administration know that business immigration, whether permanent or temporary, is vital to their ability to compete abroad and ultimately to increase employment at home.

Julian Simon, a business professor at the University of Maryland in College Park and author of *The Economic Consequences of Immigration*, says U.S. business—and the economy—would be hurt by fewer immigrants. According to Simon, restrictions on foreigners mean fewer available workers, fewer taxpayers, and fewer consumers. NB

It's Your Money

A monthly survey of strategies and suggestions to help you with your personal finances.

By Peter Weaver

TRAVEL

New Rules Eliminate Spouses' Deductions

You can no longer take a tax deduction for a spouse or companion who helps with work on a business trip. Under the new tax law, the Omnibus Budget Reconciliation Act of 1993, the person accompanying the business traveler must be an employee to qualify for the deduction.

Previously under the federal tax law, a spouse's or companion's expenses could qualify for a deduction if the person did some real work (beyond just being a good social mixer).

For some travelers, especially small-business people who really need help at conventions, seminars, and other meetings, the new law could pose a problem.

"Some small-business executives might find a way to put a spouse or companion on the payroll for a nominal amount of money so they could continue to get the deduction," says Andrea Markezin, a personal-tax and financial-planning specialist with the Ernst & Young accounting firm in New York.

But Markezin recommends checking with a tax adviser before doing something like that. The Internal Revenue Service hasn't come out with definitive rules or guidelines on the subject.

Consider taking advantage of some of the deals offered by hotels and airlines in response to the deduction's elimination.

Hotels are establishing flat rates for rooms, according to the *Consumer Reports Travel Letter.* That means two can stay for the price of one.

Airlines sometimes let companions fly free. Southwest and Continental have offered two-for-one fares under certain conditions, and other airlines are expected to offer similar deals. The cost of a rental car, of course, is the same for one passenger or more.

A travel agent can help you find out more about favorable rates.

Under the new tax law, *a spouse must be an employee in order to qualify for a business-trip deduction.*

INSURANCE

Is Your Mortgage Adequately Covered?

When you refinance your mortgage or get a new mortgage, will the monthly payments be covered if you or your spouse dies or becomes disabled or unemployed?

For years, lenders have routinely offered mortgage life insurance that pays off the loan if the borrower dies. Now some banks and other competitive lenders are offering additional coverage that includes disability and unemployment.

"Signing up for this kind of contingency insurance is a piecemeal approach," says Charles Rohm, executive vice president of the Principal Mutual Life Insurance Co., in Des Moines, Iowa. "Ideally," he says, "you should have your own personal insurance adviser who looks at your overall insurance needs and draws up a plan to cover debt payments and other liabilities."

Unfortunately, according to insurance agencies and financial planners, many families lack adequate insurance to cover contingencies. "In this case," says David Kahn, CPA and personal-finance specialist with Goldstein, Golub, Kessler & Co., a New York accounting firm, "having mortgage-related insurance is a lot better than having inadequate coverage or no coverage at all."

And you can do it without hassle. "They make it painless by adding a small premium charge to your monthly mortgage payment," Kahn says. There is no physical exam. You just fill out a simple form, check some boxes, and that's it.

You should, however, ask if you can name a beneficiary. Many such policies automatically designate the lender. When a borrower dies, the mortgage is paid off—but that may not be in the best interest of a borrower's heirs.

"You may have a great rate and a good tax deduction," Kahn says, "and having your mortgage liquidated might not be to your survivor's advantage." Some insurance companies let you decide who gets the money. Always ask.

Deciding on disability coverage can be tricky. A particular policy "may be too restrictive," Principal Mutual's Rohm says. You have to ask how disability is defined and how long the insured person must wait before coverage begins.

With policies that cover mortgage payments when the borrower is unemployed, it's important to find out how long the coverage lasts and under what circumstances. Some banks and other lenders offer such coverage free to get an edge on the competition. If you are fearful of becoming unemployed sometime soon and the mortgage contingency coverage is truly free (no hidden charges), then grab it. Otherwise, Kahn advises, "it's probably too expensive."

Peter Weaver is a Washington-based columnist on personal finance.

Buying Coverage For Nursing-Home Care

With nursing-home charges reaching $35,000 or more a year, a relative's stay in such a facility can quickly deplete a family's resources. Insuring against this contingency may make sense for some people, depending on their age, assets, income, and marital status. Coverage for stays in nursing homes is not included in

any of the various health-care proposals that Congress will consider this year.

"For middle-aged people," says Susan Polniaszek, a long-term-care consultant in Arnold, Md., "this insurance is usually protection for the spouse." For a single person, Polniaszek says, "it's protection for the heirs, and there's a question as to whether you need to spend money to protect your heirs."

Generally, long-term-care insurance pays a daily benefit of $50 to $100 or more while you are in a nursing home.

To qualify for benefits, the insured person must be unable to handle two or more activities of daily living, such as bathing, dressing, using the bathroom, feeding, and transferring (between bed and chair), or the person must have a cognitive impairment. Any of these circumstances can usually be confirmed by a doctor or a geriatric-care manager.

What do you look for when you're in the market for long-term-care insurance? "You need to look for a company that's a major player in the market because this whole concept of insurance is based on pooling risks," Polniaszek says. The bigger and more varied in terms of age and health the pool is, the better off the policyholder is.

Polniaszek adds, though, that "there's no perfect policy out there. You're faced with a lot of trade-offs with benefits and costs." For example, you might choose a $100-a-day benefit for two years instead of a $50-a-day benefit for four years. The cost will be about the same, Polniaszek says, "but you have a much better chance of receiving the full benefit for two years than you would for four years," because the average nursing-home stay is about two years.

"When you're looking at a policy," Polniaszek advises, "read all the fine print, ask a lot of questions, don't skip over anything. It's all in there for a reason."

More information on long-term-care insurance can be found in Polniaszek's book, *Long-Term Care Dollars and Sense*. Send $10 to United Seniors Health Cooperative, 1331 H Street, N.W., Suite 500, Washington, D.C. 20005. ■

COLLEGE FINANCE

Managing Repayment Of Student Loans

With an increasing number of college graduates facing unemployment or underemployment these days, it's good to know that student-loan payments can be deferred or otherwise eased until the borrower becomes solvent.

"If you're unemployed," says Anna Leider, president of Octameron Associates, a college-finance publishing company located in Alexandria, Va., "you can have a [federal] loan deferred up to three years."

You can get the same type of deferment if you are working full time for a small wage, say, as an intern or in the Peace Corps or AmeriCorps.

Although the payments stop, the interest usually keeps on accruing. In some hardship cases, lenders may stop the buildup of interest.

PHOTO: [illegible] ADAMS—THE STOCK MARKET

Peace Corps *workers can defer payments.*

If the graduate has several loans, it's possible to have them consolidated into one, with payments stretched out over 10 years or more.

In some instances, it's even possible to have payments geared to one's income, with smaller payments early on and bigger payments after one is established in a career.

If a graduate is facing urgent financial problems, it is of course crucial that the lender be notified immediately so that arrangements can be made to work out a new payment plan.

For more details on federal financial aid, you can get the book *Loans and Grants from Uncle Sam*, published by Octameron Press, P.O. Box 2748, Alexandria, Va. 223301. The price is $6. ■

INVESTING

The Ins And Outs Of Bank Funds

Perhaps your bank and others around town are advertising mutual funds as a better investment than low-interest certificates of deposit. "If you don't like dealing on the telephone and like dealing with somebody face to face ... going to the bank seems to make sense," says Michael Lipper, president of Lipper Analytical Services, a research and ranking service in New York. He says buying from banks can make sense "as a convenient savings vehicle."

As with everything else in the investment world, you have to know what you are doing. The Securities and Exchange Commission (SEC) surveyed 1,000 investors who had purchased funds at a bank and found that 30 percent thought their investments were federally insured. And, of course, they're not.

The SEC also discovered that 41 percent thought the mutual funds were backed by the bank's assets, while 37 percent thought they were safer than other funds. Two more false assumptions.

"Clearly, many investors are confused," said Arthur Levitt, the SEC chairman, in testimony before a Senate banking subcommittee in November.

Judy Benson, senior vice president of BayBanks Investment Management Inc., a subsidiary of BayBanks in Boston, says, "We require all of our mutual-fund customers to sign an agreement that they fully understand all the risks involved."

All banks are supposed to do this, and the great majority do. But signing a paper is one thing. Really understanding what kind of a fund you're getting and the risk involved is something else.

For example, some first-time investors and even some supposedly experienced investors often don't get the immutable fact that bond funds drop in value when interest rates go up.

Understanding what's going on depends a lot on the bank's marketing policy. "Our customers get no-pressure sessions with licensed investment specialists," says Benson, "because we want them to be successful and keep coming back to us. It can be an important relationship-building process."

When buying at a bank, an investor can put as little as $500 into a fund by signing up for an automatic monthly transfer of $50 or more from a checking or savings account. This is disciplined, pay-yourself-first savings, and it utilizes dollar-cost averaging, which tends to diminish the up-and-down risk of the marketplace.

"You should invest a little and invest often," Lipper says, adding that "it's a good idea to put part of your money in an equity [stock] fund and part in a bond fund. Play it across the board."

A caveat: Check the sales commissions, management fees, and other charges. Many banks tack a hefty upfront commission on the sale of funds and also charge a management fee. Some banks, on the other hand, offer no-load (no-commission) funds, have reasonable management fees, and have no other significant charges.

If you can find one of these banks and it has a good investment track record (a Lipper rating in the upper part of the range), you could set up a long-term savings plan that could keep you ahead of inflation with minimal risk. NB

To Your Health

Managing well includes managing your own health; here is advice to help you do that better.

By Christine K. Nowroozi

Aspirin: Wider Use Of An Old Standby

Aspirin, first used as a pain reliever at the turn of the century, is gaining popularity among doctors and patients as an easy and inexpensive way to ward off cardiovascular disease.

In 1988, the landmark Physicians Health Study suggested that regular use of aspirin, which doctors say prevents the development of harmful blood clots, could lower the risk of heart attack in healthy, middle-aged men. The study, conducted by Harvard Medical School and Brigham and Women's Hospital, both in Boston, studied 22,000 healthy male physicians over 40 years old from across the United States for about five years. The researchers said the subjects who were randomly assigned to take one standard aspirin tablet every other day had a 44 percent lower rate of developing a first heart attack than those who were assigned placebos.

Last year, nine out of 10 physicians who responded to a survey taken by the *Medical Tribune*, a national newspaper that serves the medical community, said they recommended aspirin and regularly used it themselves to avoid heart disease. Acetaminophen, the active ingredient in some aspirin substitutes, doesn't have such an effect on the heart. Ibuprofen, the key ingredient in others, does have some effect, but to a lesser degree than aspirin.

Among medical professionals, there is strong support for regular, long-term use of aspirin to do the following:

■ Reduce the risk of a second heart attack or death from heart disease in patients who have already had a heart attack.

■ Reduce the risk of heart attack in patients with unstable angina, a form of chest pain caused by insufficient supply of blood to the heart.

Many doctors also strongly recommend immediate use of a regular aspirin—preferably crushed or chewed—in the first few minutes after the onset of heart attack symptoms, followed by lower daily doses for 30 days. This use of aspirin was supported by the International Studies of Infarct Survival, a trial in the mid-'80s of 17,000 patients admitted to hospital emergency rooms with suspected heart attacks. Subjects who were given a daily dose of aspirin for five weeks after their heart attacks had a significantly lower death rate, as well as a significantly lower risk of another nonfatal heart attack, than those who were given placebos.

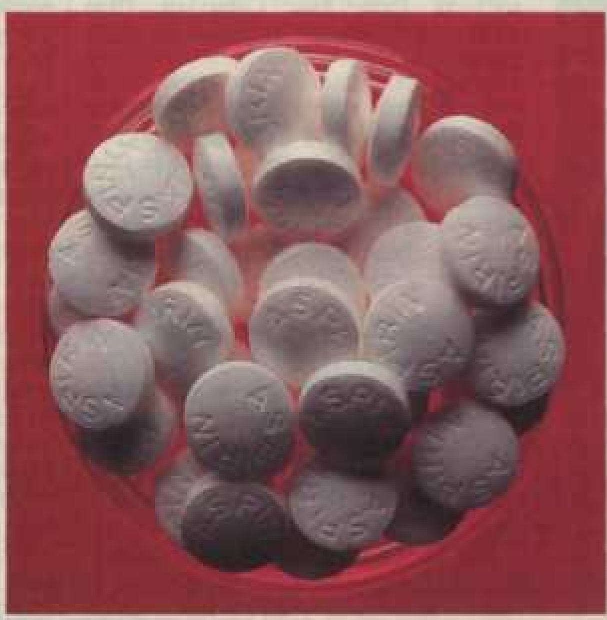


PHOTO: ©MATTHEW BORKOSKI—FOLIO, INC.

Taking aspirin regularly *has been found to reduce the risk of heart attack in middle-aged men.*

Those findings were bolstered just last month by a British-led statistical analysis of 300 previous studies. That survey, led by an Oxford University researcher, found a 25 percent reduction in the risk of a second heart attack for women as well as men.

Today, about two-thirds of patients admitted to U.S. emergency rooms with heart attacks receive immediate aspirin therapy, according to the American Council on Science and Health, a New York-based, nonprofit public education group.

Dr. Carl Pepine, co-director of cardiology at the University of Florida College of Medicine, in Gainesville, says airlines and other public transportation facilities "would be well advised to have aspirin on hand—many don't."

Physicians and researchers are still debating the issue of dosage for cardiovascular protection. The U.S. Preventive Services Task Force, a group of medical experts who study the effectiveness of various medical interventions, has recommended aspirin in daily low doses for men over 40 who are at significant risk of a heart attack. Some physicians, however, prescribe one standard aspirin every other day, and others prescribe one daily children's aspirin. About half of Bayer children's aspirin is purchased for adult use, according to Sterling Health USA, which makes Bayer.

A report published last year by the American Heart Association warned that patients shouldn't be routinely taking aspirin without consulting physicians. The article warned of potential side effects such as stomach pain, nausea, and, most seriously, gastrointestinal bleeding and hemorrhagic stroke.

"Most people aren't in the position to make judgments for themselves," says Dr. Julie Buring, associate professor of ambulatory care and prevention at Harvard Medical School and a researcher with the Physicians Health Study. "You have to weigh your risk of having a heart attack against the risks of taking aspirin, and a physician should help you do that."

The question of whether or not aspirin also helps women avoid a first heart attack still remains. A large, random trial of more than 40,000 female medical professionals that is now under way at Harvard Medical School is expected to provide some answers.

"There should be no difference in safety," Pepine says of men and women taking aspirin. "The problem is that we don't have the efficacy data."

Gender questions aside, doctors say, aspirin is not a substitute for preventive changes in exercise and diet. "Even if aspirin turns out to be everything we hope it will be, it will never, for instance, be as large a benefit as quitting smoking," Buring says. "It's not something to put in the water supply." ■

Christine K. Nowroozi is a free-lance writer in Washington, D.C.

Direct Line

Experts answer our readers' questions about starting and running their businesses.

By Meg Whittemore

START-UPS

On Consignment

My husband and I would like to move back home to Mississippi and open a consignment store. Where can I get information on setting up that kind of business?
J.F., Charleston, S.C.

ILLUSTRATIONS: MARTHA VAUGHAN

Katie Callison, who owns Secondi, a clothing consignment shop in Washington, D.C., offers advice based on her eight years in the business: "Work in a [consignment] business first before you open a shop so you know you can stand it." Then computerize your business from the start, and be sure to have enough capital, she says.

"Make sure you have one solid income or a huge savings account to live on while the business gets off the ground," Callison adds.

Colleen Gathers, who with her mother, Lois Bradford, opened a furniture consignment shop in Rehoboth Beach, Del., in June 1993, says: "You don't start out with much merchandise. It grows slowly as you grow."

Gathers says the best way to get good merchandise is to "scour the local papers to see what is for sale."

The National Association of Resale and Thrift Shops has a wealth of information for the aspiring consignment shop owner. The free information packet contains a publications catalog, along with helpful tips on everything from planning the business to stocking the shelves and opening the doors. The kit also contains information on how to join the resale association.

For more information, write or call the National Association of Resale and Thrift Shops, 157 Halsted, Chicago Heights, Ill. 60411; 1-800-544-0751.

Another source is *Too Good to be Threw: The Complete Operations Manual For Consignment Shops,* written and published by Kate Holmes. The 210-page book offers guidance for owners of newly opened shops as well as for experienced owners. The cost is $69.95 plus $2.50 for shipping and handling.

To order, write or call Kate Holmes, 1521 W. Fifth Ave., Columbus, Ohio 43212; (614) 486-0031. Major credit cards are accepted.

Beginning At The Beginning

I am about to become a sole proprietor of a small business. Before I make the leap, can you give me a list of resources on starting a business?
K.L., Alexandria, La.

You don't have to jump into entrepreneurship without an informational life raft. There are a number of worthwhile government and professional organizations to help you get started and keep going. Much of the information available through these groups is inexpensive or free.

The U.S. Small Business Administration (SBA) provides inexpensive management assistance to small businesses. Call 1-800-827-5722 for more information.

To obtain a list of SBA publications (most are under $2), call (202) 205-6665.

The SBA's Small Business Development Centers are affiliated with universities and offer training and counseling to owners of new and established businesses in 42 states. Call 1-800-827-5722 to locate the Small Business Development Center nearest you.

The SBA's Business Information Centers, located in the 10 regional SBA offices, provide information of interest to small businesses through the use of computer modems.

To locate a Business Information Center, call the SBA's answer desk at 1-800-827-5722.

Another useful source of management help for business owners is the SBA's Service Corps of Retired Executives (SCORE). About 13,000 SCORE volunteers offer free advice and assistance. For more information on this program, call (202) 205-6762.

RETAILING

The Shell Game

I want to raise lobsters to sell. Any advice?
B.B., Walnut Creek, Calif.

Mike Oesterling, a fisheries and aquaculture specialist at the Virginia Institute of Marine Science, says that there has been extensive research on raising lobsters commercially, but right now, he adds, it is not economically feasible to do so. "We can grow lobsters in a laboratory, but we can't make a living off of them," says Oesterling.

Problems in raising lobsters include the length of time it takes to get them to market size, which is several years, Oesterling says.

In addition, lobsters in captivity tend to cannibalize one another. "If you do not have them segregated, you could end up with one great big lobster," he says.

Lobsters, like other crustaceans, molt. After shedding its shell, a lobster is at its most vulnerable. It finds hiding places in its natural habitat, Oesterling says, but in an artificial environment, there are fewer places to hide.

Oesterling invites you to write or call him at the Virginia Institute of Marine Science, Department of Advisory Services, P.O. Box 1346, Gloucester Point, Va. 23062; (804) 642-7165.

HOW TO ASK

Have a business-related question? Mail or fax your typewritten query to Direct Line, *Nation's Business,* 1615 H Street, N.W., Washington, D.C. 20062-2000; (202) 463-3102. Writers will be identified only by initials and city. Questions may be edited for space.

MARKETING

Infomercial Advertising

My 9-year-old company's products require marketing directly to consumers. I think we should look into infomercials on cable television. Do you have any advice about this form of marketing?
A.E.S., South Bend, Ind.

Infomercials are paid television advertisements that range in length from a few minutes to a half-hour. Production costs vary, depending on the complexity of the production.

"Plan to spend $1,000 to $2,000 per finished minute for an infomercial consumers want to watch," says Don Shipley, director of marketing and media production services for the Kamber Group, a communications-consulting and public-affairs company in Washington, D.C.

"Unless you are ready to commit to producing an attractive spot, it is a waste of money," Shipley says. "You are looking at a demanding audience that won't listen to talking heads, and that's what a lot of these infomercials are."

Factor in the scarcity of air time available and the additional promotion required to alert the audience to watch your infomercial, and you have a sizable cost to launch one product, Shipley says.

"Do your math," says Rhonda Sanderson, president of Sanderson & Associates, a small-business public-relations firm in Highland Park, Ill. "How many orders do you have to fill in order to cover the cost of the infomercial?" She adds that "most placement companies can't promise when and where [your infomercial] will run. Demand to know that information before you sign a contract."

The *InfoQuick Guide to Infomercials*, by television-marketing expert Dick Bruno, covers infomercial history, regulations, production guidelines, and how to buy TV time effectively. The book is $29.50 plus $3.50 for postage and handling from the publisher, Hawksbill Co., 2227 U.S. Highway 1, Suite 237, North Brunswick, N.J. 08902; 1-800-643-6577.

NETWORKING

Women In Construction

I am a woman who runs a construction company. I am looking for an organization of like-minded individuals to help me with networking and education.
H.H., Jacksonville, Fla.

The Women Construction Owners & Executives, USA, is a national association representing women-owned construction firms and decision-making women executives in the construction industry. Founded in 1983, the organization's members include general contractors, architects, engineers, construction project managers, subcontractors, and other professionals.

The trade group offers educational seminars throughout the United States, and its annual convention is scheduled for March 11-17 in Washington, D.C.

For more information on the organization, you can write or call Shirley Blase, executive director, Women Construction Owners & Executives, USA, 1000 Duke St., Alexandria, Va. 22314; (703) 684-6060. NB

Classified Ads

Classified Rates And Information

To place a classified ad CALL TOLL FREE, 800-424-6746 (in Washington, DC call 463-5640) or write Nation's Business Classified, PO Box 1200, Washington, DC 20013. Closing date for advertising is five weeks preceding date of issue. Rates are based on frequency at a per line per insert cost as follows:

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ON WELFARE REFORM

Results of this poll on welfare reform will be sent to congressional leaders and the administration.

Send the attached, postage-paid response card. Or circle your answers below and fax this page to (202) 463-5636.

1

Should Congress postpone action on welfare reform until it has dealt with the health-care issue?

1. Yes
2. No
3. No opinion

2

One welfare-reform proposal due for consideration would limit benefits to two years. Do you support that approach?

1. Yes
2. No
3. No opinion

3

Another proposal would reduce benefits of single mothers who refuse to help establish paternity of their children. Should this idea be adopted?

1. Yes
2. No
3. No opinion

4

Should welfare benefits be denied to noncitizens?

1. Yes
2. No
3. No opinion

5

Should the government employ welfare recipients unable to find private-sector work after completing job training?

1. Yes
2. No
3. No opinion

6

How do you assess President Clinton's chances of achieving his intention to "end welfare as we know it"?

1. Good
2. Poor
3. Nonexistent

Send Your Response Today!

POLL RESULTS

Readers' Views On Paperwork

Eighty-nine percent of the respondents to a recent *Nation's Business* poll on federally required paperwork support a requirement that every bill introduced in Congress carry an assessment of its paperwork implications.

Five percent said there should be no such requirement, and 6 percent had no opinion. The paperwork poll was conducted in December.

Pending legislation in Congress would reinstate in stronger form the Paperwork Reduction Act of 1980, which is due for reauthorization.

Among the respondents, 44 percent said meeting federal paperwork requirements diverts substantial resources from their direct business activities; 51 percent said the requirements have a moderate impact on resources diverted; and 5 percent said such requirements divert no resources.

Complete results of the poll appear below.

PAPERWORK

The Paperwork Reduction Act was in effect from 1980 to 1989. What happened to your company's federally required paperwork over that period?	1. Decreased 2. Increased 3. No change	6% 75% 19%
Do you believe that Congress and the administration are aware of the cumulative impact of federal paperwork requirements on business?	1. Yes 2. No 3. No opinion	8% 90% 2%
To what extent does meeting federal paperwork requirements divert resources from direct business activities of your company?	1. Substantially 2. Moderately 3. Not at all	44% 51% 5%
Should Congress require that an assessment of the paperwork implications accompany all legislation?	1. Yes 2. No 3. No opinion	89% 5% 6%
Pending legislation would reinstate in stronger form the Paperwork Reduction Act that expired in 1989. Should this legislation be passed?	1. Yes 2. No 3. No opinion	81% 7% 12%

For Your Tax File

How to keep taxes from trapping you.

By Albert B. Ellentuck

REAL ESTATE

Some Breathing Room For Owners In Distress

The tax changes in the Omnibus Budget Reconciliation Act of 1993, signed by President Clinton last August, brought some relief for owners of distressed real estate. It is now much easier for borrowers to restructure mortgage obligations on business real property affected by depressed real-estate values.

Before the new law, if a lender reduced the amount of a mortgage, the borrower would realize income in the amount of that reduction. For example, James Smith owns an apartment building with a $1 million mortgage on which he is personally liable, but the property is now worth only $800,000. He is having difficulties making the mortgage payments. Before the new tax law, if he could get the lender to reduce the principal to $800,000, he would have realized $200,000 in income. If he were insolvent or bankrupt, he could defer taxation of that income by reducing the tax basis of his depreciable property or other tax attributes by $200,000.

Under the new law, when Smith's debt is reduced from $1 million to $800,000, Smith can make an election to defer the $200,000 of income. This election is not available to C corporations, but it is available to all other taxpayers, including individuals, partnerships, and S corporations. The tax basis of the real property would be reduced by $200,000. This is a deferral and does not eliminate the income, since the $200,000 would be taxed on a subsequent sale of the property.

PHOTO: ©JIM PICKERELL-FOLIO, INC.

Redoing *the mortgage? Check the tax law.*

There are a number of technical requirements to qualify for this treatment. Essentially, the debt must be a mortgage loan made with regard to real estate used in a trade or business. Also, for loans made after Dec. 31, 1992, the loan must be made for the purpose of acquiring, constructing, reconstructing, or substantially improving the property. Loans before that date need not be for these purposes.

In addition, taxpayers cannot exclude more than the difference between the debt and the fair market value of the property, which in Smith's case is $200,000. Also, the taxpayer may not exclude more than the basis of his depreciable real property; thus, in Smith's case, the tax basis of his depreciable real property must be $200,000 or more in order to exclude this amount.

The new law may make restructuring real-estate debt easier because it eliminates any immediate tax on the restructuring of many distressed loans. ■

MEDICARE

The Health-Care Levy's Impact Is Deepened

The new tax law will require employees and self-employed individuals who make more than $135,000 a year to pay more in Medicare insurance taxes in 1994. Employers will also pay more in Medicare taxes for workers with wages above that amount. The reason: Effective Jan. 1, the law eliminated the ceiling of $135,000 on earnings subject to the Medicare tax.

The tax rates remain at 1.45 percent for the employee plus 1.45 percent paid by the employer for each employee; and the rate stays at 2.9 percent for the self-employed (who must pay both the employer's and the employee's portion of the tax). Applying those rates to all wages rather than just the first $135,000, of course, could mean a significant tax increase for high earners.

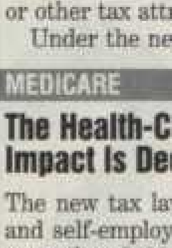
The change is particularly significant for self-employed individuals, including those in partnerships. For example, John Jones is a sole proprietor earning $300,000. He paid the maximum Medicare tax of $3,915 in 1993 on self-employment income. Under the new law, his Medicare tax will now be more than twice as much, or $8,700. If he were an employee earning $300,000, he and his employer would share the cost—each paying $4,350.

It is important to note that earnings of S corporations, other than salaries, are not considered self-employment income to the shareholders. Accordingly, to reduce the amount they pay for the Medicare tax, owners of S corporations might consider reducing their salaries and passing through more of the income as earnings to the shareholders. (Check with your accountant to determine if this would be advantageous for you.)

For example, if Jones formed an S corporation and his $300,000 of earnings were divided into $100,000 of salary and $200,000 of earnings of the S corporation, which pass through to the shareholder much like a partnership, the Medicare tax would be only $1,450 on Jones and $1,450 on the corporation. Of course, the salary paid cannot be reduced below an amount that the IRS would consider reasonable; an accountant could help a taxpayer arrive at a reasonable salary.

There are numerous pros and cons on forming an S corporation, or converting a regular C corporation to an S corporation. The Medicare tax is only one possible incentive. But there are also disincentives. For example, the Clinton administration's health-care bill would require S-corporation shareholders with more than a 2 percent interest to pay self-employment taxes on their entire share of the corporation's earnings.

Under such a provision, owners of S corporations would be unable to reduce their Medicare tax by reducing their salary and increasing their S-corporation shareholder earnings. So Jones, for example, no matter how he might apportion his earnings as salary and shareholder earnings, would have to pay the full $8,700 because all of his earnings would be subject to the tax. NB



Tax lawyer Albert B. Ellentuck is counsel to the Washington, D.C., law firm of King & Nordlinger. Readers should see tax and legal advisers on specific cases.

Editorial

Is Congress Up To The Challenge?

The 103rd Congress is just beginning its 1994 session, but its agenda is already crowded, perhaps overcrowded. Health-care reform will be the dominant issue because of its potential impact—the issue involves $1 trillion of spending, and changes would affect practically every American.

Congress will also be dealing with major legislation on crime, welfare, taxation, spending, the environment, international affairs, trade, labor-management relations, education and training, and civil-justice reform.

Is Congress sufficiently well-organized to deal with those and the hundreds of other items of business on its calendar? This question is particularly germane in an election year when members will want to adjourn early to campaign. The answer, unfortunately, is no. There are serious problems in the way that Congress conducts its business, and these must be resolved if members are to deal efficiently with the growing number and complexity of public-policy issues.

Those problems arose gradually as a result of congressional actions that have had the collective effect of providing most members of that body with powerful electoral advantages. They include large staffs, such perquisites as franked mail, and the proliferation of subcommittees, which allow a large number of members to identify themselves as chairmen of this or that panel and suggest that status gives them enhanced power to serve their constituents.


PHOTO: [illegible], INC.

Problems *under the Capitol dome.*

That increased job security resulting from those and other incumbent advantages has resulted in criticism that serving the public interest has been downgraded as a priority, particularly with respect to issues affecting the economy and the business community. A member assured of election isn't going to spend much time evaluating the impact of specific bills on the enterprise system.

But the voters have given a loud and clear signal that they will not endure the status quo. The large number of newcomers elected in November 1992 and the results of various special elections since then have reinforced the demand for change.

For their part, congressional leaders point to their creation of a Senate-House committee to recommend major changes in the way their branch of government operates.

Establishment of the committee was indeed a welcome move, but it was largely a self-defense strategy in the wake of the House bank scandal and other disclosures that threatened the political futures of many incumbents. The committee's recommendations also will be most welcome, but it remains to be seen whether the committee's objective is truly long-range reforms or political cover while Congress survives another crisis. Developments are thus far not encouraging. The Joint Committee on the Organization of Congress is far behind schedule, and many of the proposals under discussion have drawn fire from various sectors of Congress.

The latest timetable calls for final action on a reform plan early this year, but it is unlikely that deadline will be reached. The possibility that any plan will be denounced as both too aggressive and too timid remains very real. Despite the sense of determination with which the reform committee was created, it becomes more and more controversial as the time nears for decisions on actual changes. Congressional insiders say that opposition of powerful committee chairmen to any reduction of their power or tenure is a major stumbling block to completion of the panel's recommendations and will be a major factor in floor debate.

Whatever the organization committee eventually proposes, there are specific steps that should not be abandoned, regardless of the degree of opposition. Among them:

■ Terms of committee chairmen should be limited, thus curtailing the vast power that long-term heads of committees accumulate.

■ Members should be restricted to a fixed number of consecutive terms that they may serve on a committee, which would assure a continuing influx of new thinking.

■ Standards of acceptable usage should be set on the franking privilege, whose use by incumbents grows explosively in election years.

■ Congress and the rest of the federal government should be subject to the same labor, civil-rights, environmental, and employee-benefits laws that businesses and individuals must obey. Critics have long argued that Congress' policy of exempting itself from rules and responsibilities it imposes on the private sector is one of the main reasons why it is increasingly out of touch with the real world.

It is no surprise that reform of congressional operating procedures has become highly controversial and that the entrenched Capitol Hill bureaucracy is unhappy with many aspects of it.

Rank-and-file members must remember, however, that their constituents did not send them to Washington to preserve the power of career legislators but to impose the changes needed to make Congress responsive to the American people. NB

Free-Spirited Enterprise

By Janet L. Willen

Rolling Along

Mud, sand, gravel, and debris can bog you down when you have to move material at a construction site. But **Roleez Wheel System, Inc.,** of Norfolk, Va., says its wheels can keep you going.

Roleez wheels are designed to conform to the shape of the terrain and glide over it rather than dig into it. The wheels are made of strong, highly elastic plastic that can withstand pressure of 900 pounds per square inch. The company says that as pressure on the wheels increases, the wheels elongate, which makes it easier to push or pull them over any kind of terrain.

Wheels cost $85 apiece. The company offers a variety of carriers with Roleez wheels and a kit for attaching Roleez wheels to construction wheelbarrows. For information on these or other Roleez products, call (804) 461-1122.

ILLUSTRATIONS: PAT MORRISON

The Days Of Our Lives

Anyone whose schedule includes orthodontist appointments, scout meetings, and car pools as well as business meetings and PTA knows that not every calendar will do. *The Every Mother Is a Working Mother Daybook* might be the organizer for you.

The undated daybook runs from September through August. Each month starts with a left-hand page for reminders about kids and a right-hand page for reminders about their mothers.

Turn the page for weekly planning.

There's space for the kids on the top of the left-hand page, and for their mothers, on the top of the right. The bottom is for daily reminders about anyone.

The daybook is peppered with correspondence from two harried mothers, Veronica and Crystal, whose stories about their children may remind you of your own. Writes Veronica: "I cleaned out Jonathan's knapsack to find a green furry thing growing inside an old yogurt cup. . . ."

The 184-page book costs $14.95 and is available from **Lansdowne Press** at (617) 862-0717.

Straight Shooting

If you get frazzled trying to align multiple items for photocopying onto one sheet or get frustrated trying to unravel a fax for photocopying, a STRAIGHT-jacket might help you.

STRAIGHT-jacket, made by a company of the same name in Aumsville, Ore., is a foam board with an acetate overlay. To use it, arrange your papers on the nonphotogenic grid on the board, cover them with the plastic overlay, and wipe the sheet with a cloth to hold everything intact. Then copy, as you would any other paper.

The STRAIGHT-jacket comes in letter and scanner sizes, for $12.95, and in legal size, for $14.95.

For more information, call (503) 749-1052.

Computer Add-On

Keep your computer working even if it's turned off.

The Tube Topper, from **SSC,** of Muskegon, Mich., turns your monitor into a bulletin board. The computer accessory is a two-piece board that flanks the vertical sides of the monitor. Each piece measures $10^1/_2$ by $3^1/_2$ inches. One piece is for tacking messages with push pins, and the other is for writing messages that wipe off. Both boards attach to the machine with interlocking fabric fasteners.

The Tube Topper costs $29.95. For more information, call 1-800-825-SSC1, or 1-800-825-7721.

Sign Off

If you spend hours signing your John Hancock, consider doing what the presidents do. Get an Autopen machine from the **International Autopen Co.** of Sterling, Va.

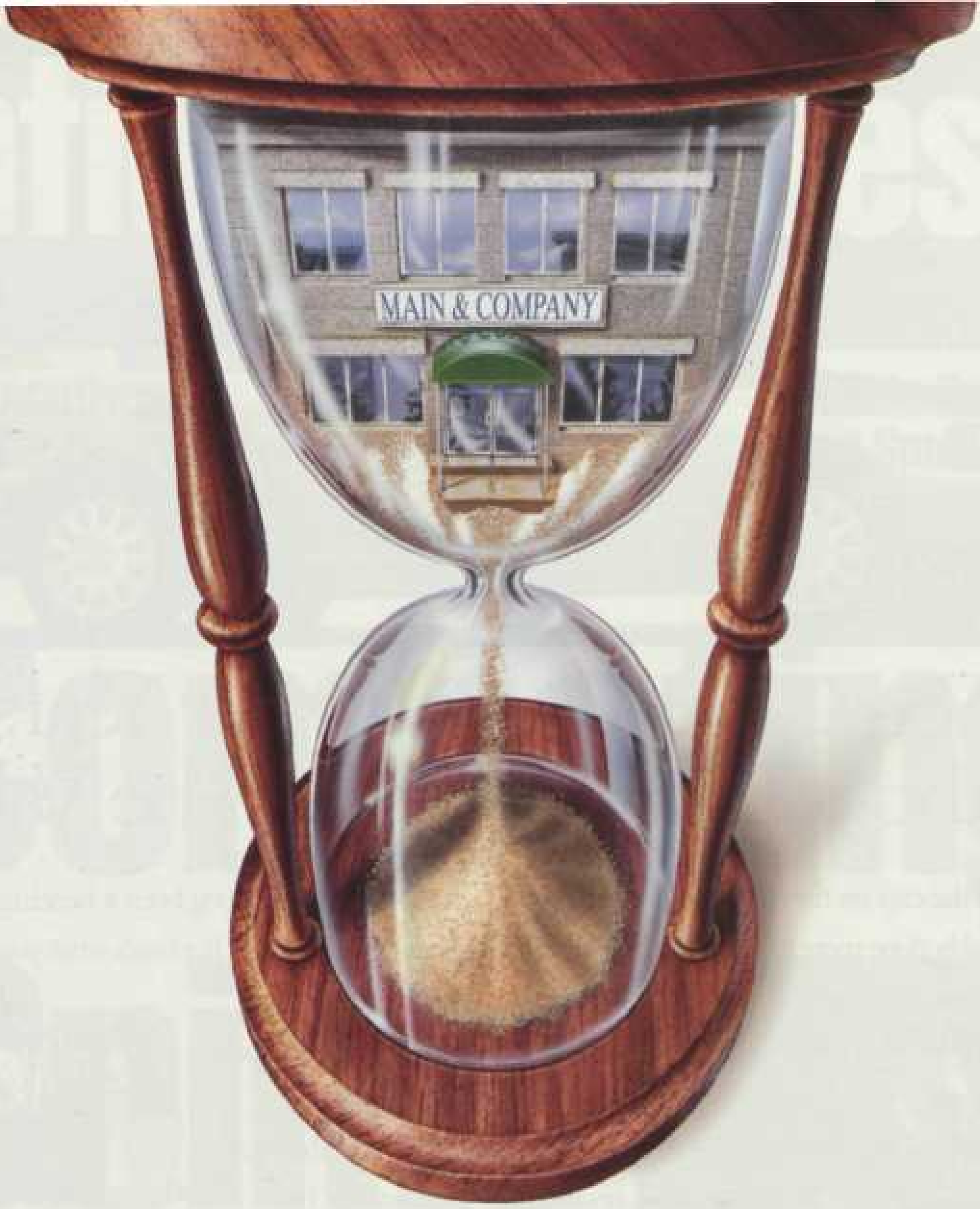
The machines use any pen—or pencil—to reproduce original signatures from plastic matrices. The company cuts as many matrices as you need from your or other executives' signatures. You insert a matrix, and it pushes the pen to reproduce the signature.

The Autopen resembles a drawing board with springs and arms to hold a pen. The top-of-the-line Model 350 can feed 1,500 sheets, position each paper, and scan it for the place to sign. Manual-feed models are also available. Both models sign 300 to 350 pages per hour.

International Autopen can install security devices so you can restrict the pen's use. That shouldn't be surprising for a company that's been supplying the White House for more than 30 years.

The manual Model 80 costs about $3,000, and the automatic Model 350 is about $8,900.

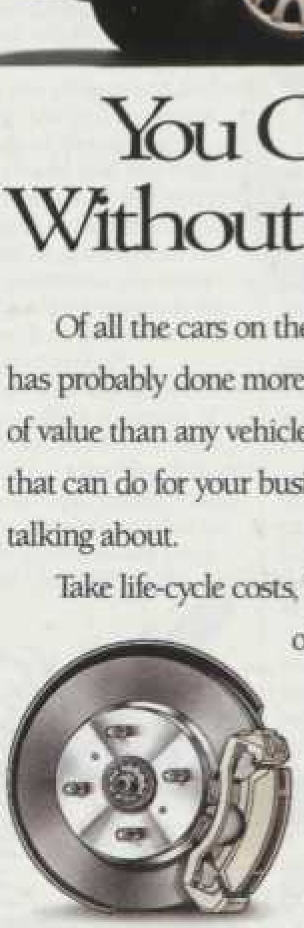
For more information, call 1-800-262-0103. NB


MAIN & COMPANY

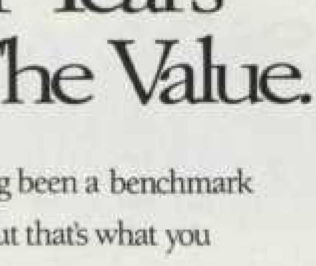
You Can Drive One For Years Without Driving Down The Value.

Of all the cars on the road, the Toyota Corolla has probably done more to redefine the meaning of value than any vehicle in its class. And what that can do for your business is definitely worth talking about.

Take life-cycle costs, that interesting equation of depreciation, resale and operating costs. Many fleet managers base their decisions on those numbers. Reason enough to consider how the Toyota Corolla can help you attain the bottom line you want. But the Corolla is more than just value. It's quality. Toyota quality. Look at the past 26 years. You'll find the Toyota Corolla has long been a benchmark of quality in the U.S. But that's what you get when you offer standard driver- and passenger-side air bags.* Available Anti-lock Brakes. The pride of knowing most Corollas are built in North America. And the kind of reliability that's made Toyota Cars and Trucks legendary.



High-quality components give our available Anti-lock Brakes added worth.



Standard driver- and passenger-side air bags. Two priceless values.*

So if you're looking to be in business for the long term, think long term. And invest in the 1994 Toyota Corolla. To get started, why not call 1-800-552-FLEET today? It's one move you'll value for years.

TOYOTA Corolla

"I love what you do for me."

Buckle Up! Do it for those who love you. *Always use your seatbelt. Driver- and passenger-side air bags are a Supplemental Restraint System (SRS).

The Business Advocate

SUPPLEMENT TO Nation's Business FEBRUARY 1994

U.S. Chamber of Commerce

1993 Annual Report

Grass-Roots Activism Pays Off

The U.S. Chamber's strengthened ability to rally its members has made it more influential than ever.

New: GAIN Update

Page 87

THE UNITED STATES CHAMBER OF COMMERCE

Dear Member:

When the Clinton administration took office a year ago, the leadership of the U.S. Chamber made a commitment: We would support the new president when his positions so warranted, but challenge him when we believed that he was wrong. We stated then that we would be particularly watchful for trends typical of earlier eras in which Democrats held the presidency and controlled Congress—"a tendency toward excessive regulation without concern for economic costs, more interest in raising taxes than cutting spending, and an undue concern for the wishes of organized labor."

We have fulfilled those pledges consistently in the past year. Some notable examples:

The Chamber and the president were partners in winning congressional approval of the North American Free Trade Agreement, one of the most significant legislative victories that business has achieved in many years. We opposed his budget plan because it relied too much on tax increases and too little on spending cuts, thereby failing to meet our requirement for "the best possible package for fostering long-term economic growth and sustained deficit reduction." While that legislation did win congressional approval by the narrowest of margins, we defeated the administration's economic-stimulation plan based on multibillion-dollar deficit spending.


Gorr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Lesher

We judged all the pending health-policy proposals, including the president's, against our long-held principle that "efficiency and cost containment can be achieved only through a market-based, privately managed system." We are supporting elements of the various health-reform proposals that are consistent with that position and opposing those that are not.

We adopted a firm, no-compromise position against the administration's push for legislation to prevent employers from replacing strikers who walked off their jobs in disputes over economic matters, and we took issue with other administration actions on labor-management relations.

The Chamber helped shape President Clinton's executive order that federal agencies weigh the cost against the benefits of new controls and determine whether existing regulations are unnecessary, outdated, or duplicative. At the same time, we established our own regulatory watchdog panel to monitor implementation of the president's order.

In taking these actions on behalf of our membership of 215,000 companies, 3,000 state and local chambers of commerce, and 1,300 trade and professional associations and American Chambers of Commerce Abroad, the U.S. Chamber reinforced its longstanding position as the most influential business organization in Washington. And that influence will continue to grow with the expansion of our Grassroots Action Information Network (GAIN).

You will find detailed reports in the pages of this annual report on the positions that we took on critical issues, on the significance of the NAFTA victory, on the growth of GAIN, and on other Chamber activities.

Those individual elements add up to a strong, principled, dynamic organization. With your continuing support, we will demonstrate even more effectively in this new year that the U.S. Chamber federation is truly the Spirit of Enterprise.

Sincerely,

Ivan W. Gorr
U.S. Chamber Chairman

William C. Marcil
Vice Chairman

Richard L. Lesher
President

Chamber Enhances State Network

The U.S. Chamber of Commerce took a major step toward strengthening its grass-roots network in late 1993 by making broadcast satellite dishes available to all state chambers of commerce.

In a letter to state chamber executives, U.S. Chamber President Richard L. Lesher said: "We are establishing a state-by-state satellite network, which will enhance our new Grassroots Action Information Network (GAIN), expand our management-training capabilities, and increase our ability to broadcast town-hall-type meetings on major national and international issues of concern, like the North American Free Trade Agreement and health care."

The satellite dishes are being donated to the U.S. Chamber by Comsat Corp., of Washington, D.C., and Radiation Systems Inc., of Sterling, Va.

"Virtually all the state chambers have responded positively to our offer of the dishes," said Carl Grant, the Chamber's senior vice president for communications. "They see the potential for enhancing their own capabilities as well as those of the U.S. Chamber."

The U.S. Chamber is expanding its communication capabilities by providing satellite dishes to state chambers.

The Florida State Chamber of Commerce was the first organization to receive one of the state-of-the-art dishes.

(See related stories on GAIN, below; on the Chamber's quality-management seminars, on Page 91; and on the Chamber's NAFTA satellite town meeting, in the NAFTA item on Page 84.)

Frank M. Ryll Jr., president of the Florida State Chamber of Commerce, and other employees of the organization unload a satellite dish obtained through the U.S. Chamber.

Power Through GAIN

A key to the U.S. Chamber of Commerce's ability to influence legislation on Capitol Hill in 1993 was its new Grassroots Action Information Network.

GAIN links business people who are activists on legislative and regulatory issues to the latest information on those issues available at the Chamber's headquarters in Washington.

In 1993—its first year—GAIN enabled the Chamber's legislative-action strategists to communicate quickly with business activists who, in turn, contacted their lawmakers and urged them to take particular positions on issues. (See the new GAIN Update report on Page 87.)

The network was particularly effective in helping to win congressional approval of the North American Free Trade Agreement and to persuade Congress to remove an anti-business provision from the Defense Department authorization bill. (See the legislative-victories story on Pages 84 and 85.)

In achieving the NAFTA win, the Chamber used GAIN to identify small-business people whose products would benefit from the trade agreement's passage. Once they were identified, the Chamber helped secure their participation in a White House program to spotlight the likely advantages of the trade agreement for U.S. producers.

The Chamber also used GAIN at a strategic point in the House debate on NAFTA to heighten support for the pact in the districts of lawmakers who were undecided. It notified business activists in those districts that it was urgent for them to contact their representatives immediately to urge support for the agreement.

Chamber strategists also used GAIN as a defensive tool to help kill the anti-business defense-bill provision. The provision would have prohibited many companies with defense contracts or subcontracts from terminating or laying off employees for six months after the workers received written notice of the plan. The Chamber quickly targeted activists on defense-related issues through GAIN and asked them to contact their lawmakers immediately about the layoff provision, which ultimately was deleted.

For more information about GAIN and how to become a member of the network, call (202) 463-5604.

1993: A Year

John Howard, left foreground, director of international programs and policy for the Chamber, was among the many Chamber issue specialists who conducted a Capitol Hill lobbying blitz to help win passage of NAFTA.

Passage of the North American Free Trade Agreement topped the important legislative victories the U.S. Chamber of Commerce won for its members in 1993.

Following are highlights of those wins:

■ North American Free Trade Pact

Congressional passage of the North American Free Trade Agreement (NAFTA) in November was the Chamber's biggest legislative achievement of the year because of its far-reaching potential for business expansion and job creation.

The trade agreement has already resulted in the elimination of many trade barriers among the U.S., Mexico, and Canada and will eliminate even more trade obstacles as it is phased in over 15 years. The agreement is expected to result ultimately in a net increase in U.S. jobs and is seen by business and the Clinton administration as critical to the future competitiveness of U.S. companies.

The Chamber was instrumental in building support for the pact early on, but it was particularly effective just before the critical Nov. 17 House vote. It marshaled every resource it could to secure the 234-200 House victory and the 62-37 Senate win a few days later.

The Chamber's ability to activate its members at the grass-roots level was especially important. In the days leading up to the House and Senate votes, it produced a town meeting broadcast live to business people at more than 600 satellite-downlink sites in 250 cities.

The Chamber also put its new Grassroots Action Information Network to a critical test to generate business contacts with representatives and senators. (See related story on Page 83.) And it conducted a host of other activities to win the pact's passage.

■ Freight Charge Solution

In another victory important to many U.S. Chamber members, Congress approved legislation to correct a freight-related problem that could have cost companies that shipped goods by now-defunct trucking firms more than $30 billion.

The problem arose when creditors for some bankrupt trucking firms billed the companies' former customers for the difference between lower rates negotiated with the firms—which those companies had already paid—and the higher tariff rate specified by the Interstate Commerce Commission (ICC).

A 1980 law allowed freight carriers to charge shipping rates different from rates on file with the ICC, but it also required that the new, negotiated rates be filed with the agency. Many freight carriers did not file the lower rates.

The Chamber worked with a coalition of businesses and associations to get corrective legislation introduced and then to win its passage.

The legislation exempts small businesses from additional charges and allows larger freight shippers to pay between 5 percent and 20 percent—depending on the size of the shipment—of the difference between the negotiated and the filed rate or to appeal the undercharge to the ICC.

■ Regulatory Review

The Chamber also played a leading role on behalf of business in ensuring that the federal regulatory-review process included in a presidential executive order would be fair to business.

In meetings and correspondence with Clinton administration officials, including Vice President Al Gore, the Chamber voiced concerns about certain aspects of a draft of the order.

But those concerns were allayed in the final order, and the regulatory-review process will now afford business

Of Key Legislative Victories

The Chamber's liaison with the Senate, Lonnie Taylor, left, confers with Senate Minority Leader Bob Dole, R-Kan., on legislation to ban the permanent replacement of striking workers. The Chamber helped keep the bill from coming up for a vote in the Senate last year.

substantial opportunity to comment on the potential impact of proposed regulations, according to the Chamber.

Defense Contracting

Largely as a result of Chamber leadership, a measure that would have hampered efforts of companies with defense work to cope with fast-changing markets was struck from the Defense Department authorization bill.

The provision would have prohibited many companies with defense contracts or subcontracts from terminating or laying off employees for six months after the workers received written notification of the plan to cut payrolls.

Failure to comply with the provision would have resulted in a company's being suspended or barred from receiving defense contracts.

Joint Ventures

President Clinton signed into law in June the National Cooperative Production Amendments, which the Chamber had urged Congress to pass as vitally important to U.S. competitiveness.

The law extends the antitrust protections of the National Cooperative Research Act—which allows for joint research ventures—to production joint ventures. The amendments clarify companies' ability to jointly produce products, supply processes, or provide services to achieve efficient use of resources, provided the joint efforts are not undertaken simply to reduce competition.

Economic Stimulus

The Chamber was a leading voice in opposition to the Clinton administration's $16.3 billion economic stimulus package, which Congress defeated last April.

The Chamber and other opponents said the measure would add to the budget deficit and would do little to boost the economy.

Biological Survey

The Chamber was instrumental in helping to secure a change in the Interior Department funding bill that will help protect the rights of property owners. The appropriations legislation calls for a nationwide biological survey of plant and animal species.

The Chamber fought for and won the expressed right of a property owner to require a surveyor to obtain the owner's written permission to conduct a survey. The Chamber-backed language also gives the owner the right to accompany the surveyor during the survey and allows the landowner to see reports or data compiled as a result of the survey.

Small-Business Lending

After nearly three years of advocating changes, the Chamber and the banking community were successful in easing federal regulations on small-business lending in 1993.

President Clinton implemented changes in the lending rules to ease the credit crunch, including allowing bankers to grant loans based on a borrower's past performance and character.

BTU Tax

The Chamber also played a key role in defeating a measure in the Clinton budget bill that would have imposed a $71.5 billion tax over six years on the heat content of fuels as measured in British thermal units (BTUs).

Proposed as part of a broad economic package, the BTU tax would have had a wide-ranging negative impact on business costs at a time when the economy was still struggling.

ATTENTION: U.S. CHAMBER MEMBERS

The recently enacted Omnibus Budget Reconciliation Act of 1993 eliminates the federal income tax deduction for certain lobbying expenses. This legislation also affects membership dues and similar payments made to associations that engage in lobbying.

Associations are required to notify their members regarding the percentage of their dues or similar payments that are not deductible because they are attributable to the organization's lobbying activities.

Under the new tax-law provisions, 43 percent of 1994 membership dues and similar payments made to the U.S. Chamber of Commerce are not deductible for federal income tax purposes. Payments made to the U.S. Chamber in 1993 may also be affected. Please consult your tax adviser.

Health-Care Policy Base Is Adopted

Robert E. Patricelli, chairman of the U.S. Chamber's employee benefits and health committee, testifies before the Senate Labor and Human Resources Committee on the Chamber's position on health-care reform.

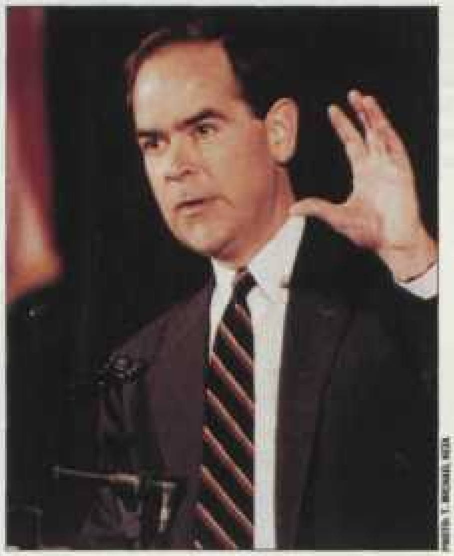
Above, Secretary of Health and Human Services Donna Shalala addresses a business audience at the Chamber on the direction the administration was headed early last year on health-care reform. At left, Rep. Jim Cooper, D-Tenn., discusses the differences between his health-reform proposal and the Clinton administration's plan at the Chamber later in the year.

Much of the U.S. Chamber of Commerce's lobbying effort in 1993 was dedicated to establishing and articulating its position on health-care reform.

The Chamber established its position after months of consideration by its policy committees, whose recommendations received careful review by the organization's board of directors.

Representatives of the Chamber then detailed that position before congressional panels, in repeated meetings with officials in the Clinton administration and in Congress, through media contacts, and in a variety of other ways.

The strategic goal was to influence various aspects of the administration plan before it was introduced as legislation on Capitol Hill and to make clear



what elements business sees as essential to an effective reform plan. (For details on the Chamber's position, see the GAIN Update, Page 87.)

The Chamber ended 1993 well-positioned to continue as the principal business link to members of Congress and administration officials as they move toward a compromise health-care reform package.

Fostering Democracy

The Center for International Private Enterprise (CIPE), an affiliate of the U.S. Chamber of Commerce, continued to aid market-based economies in fledgling democracies around the world last year.

CIPE is the business participant in the federally funded National Endowment for Democracy, whose goal is to help spread and nurture free-market principles in struggling democracies. Among the organizations funded by CIPE in 1993:

- The Association of Slovak Entrepreneurs worked for changes in new and existing laws in Slovakia to lessen the regulatory burden on small businesses.
- The National Association of Private Enterprise, El Salvador's umbrella business organization, provided analyses of economic proposals to leaders of the country's various political parties. It also held seminars for Salvadoran legislators, including one attended by nearly 100 lawmakers and private-sector business leaders.
- In the Philippines, the Center for Research and Communication conducted a yearlong economic advisory program designed to support market-oriented laws as key components of the government's macroeconomic policies.
- The Botswana Confederation of Commerce, Industry and Manpower, the African nation's dominant business organization, tripled its membership in 1993 and established a national business network, which became a major force in shaping government economic policy.

Also in 1993, CIPE helped organize conferences in Russia and Ukraine to bring together top political officials to discuss the rapid economic transformations taking place in their developing democracies.

CIPE's quarterly journal, *Economic Reform Today*, was distributed to more than 26,000 policy-makers and business and opinion leaders in developing countries in 1993.

GAIN UPDATE

GRASSROOTS ACTION INFORMATION NETWORK

Top Business Issues Of 1994

The U.S. Chamber of Commerce will be active on a wide range of issues important to you in this year's session of Congress.

Achieving pro-business solutions to such challenges as health-care reform and fiscal restraint will be the U.S. Chamber's top priorities in the election-year congressional session now getting under way.

Other issues on which the organization will be taking a lead role on behalf of business include the transportation/telecommunications infrastructure, government regulation, product liability, labor-management relations, trade, campaign financing, and improvements in the way that the government, including Congress, is run.

Those issues will be fought out against the backdrop of an off-year congressional election in which restive and increasingly demanding voters could be in a mood to make wholesale changes. They have already sent signals—in results from mayoral elections in the nation's two largest cities, in governors' races in two states, and in special elections for Congress—that fiscal restraint and growing distrust of government as a problem-solver are among their top considerations. Those voter sentiments could work to business's advantage on many of the pending major issues.

The interplay of legislation and politics will become increasingly apparent as the congressional year advances.

A summary report on the Chamber's goals and strategies for the most important of these issues follows.

Health-Care Reform Must Stop The Shifting Of Costs Onto Business

The Chamber is fighting to prevent costs of health-care reform from unduly burdening employers and from hampering the economic growth that creates jobs.

Introducing GAIN Update

A major new element appears in *The Business Advocate* this month. GAIN Update is a comprehensive report on the status of issues that could affect the way that you run your business. GAIN stands for Grassroots Action Information Network, one of the most important member services ever offered by the U.S. Chamber. This monthly print version of legislative information is designed as a pull-out for filing and future reference.

Details on the GAIN program and how you can participate appear on Page 83.

The organization's plan is geared to the two key tenets of reform—universal coverage based on a reasonable core-benefits package and shared responsibility. The nation will never get a grip on health-care cost containment unless everyone is in the system and playing by the same rules, which is the point of universal coverage. Failure to include all citizens would mean continuation of the practice of shifting costs of the uninsured patients onto the insured, which essentially means onto the businesses that now provide most health-insurance coverage.

Employers, employees, and the government have a reponsibility to pay for the cost of care. Provided that the minimum benefit package required is not overly expensive, all individuals should be required to have health insurance. It should be paid for through a combination of employer/employee contributions for all working people and dependents; public funding for the elderly, poor, and near poor, and individual contributions.

Under such coverage, employers would make insurance available to employees and pay part of the cost; the U.S. Chamber opposes the 80 percent employer contribution recommended in the Clinton administration's reform plan and seeks a substantially lower level.

An essential requirement of this shared responsibility is a federal subsidy to low-wage employees and to small businesses unable to pay the full cost of premiums. Any plan that does not incorporate that provision is not acceptable to the Chamber. The organization also opposes the creation of purchasing cooperatives that resemble huge, quasi-government bureaucracies; caps on premiums or price controls on fees; and limits on employers' rights to self-insure without penalty.

Any health-insurance purchasing cooperatives (HIPCs) should be vehicles for small businesses to purchase coverage at much more competitive prices than they have been able to do previously. The Chamber is also concerned about the power that the Clinton plan would apparently grant to the national health board that would oversee the system envisioned in the president's plan.

Other concerns that the Chamber has with the Clinton plan relate to the authority it would give states to establish single-payer systems, the scope of the standard-care package, and the insufficiency of its proposals for malpractice reform.

In regard to the tax aspects of health reform, the

GAIN UPDATE

Chamber strongly supports continuation of the right of employers to deduct their health-insurance costs as a tax-deductible expense and allowing the self-employed to deduct 100 percent of their medical-insurance costs, rather than the 25 percent that has been the norm.

The Chamber's basic position on health-care reform was established in policy guidelines set down by the board of directors at the outset of the health-care debate last year. In adopting them, the board said: "The Chamber will seek to play a constructive role in helping to forge a national consensus, believing that all of the parties interested in this important issue will need to make compromises if we are to enact needed legislation."

The general expectation in Washington is that the legislation ultimately considered by Congress will be an amalgam of provisions from various plans, including that of the U.S. Chamber.

Workers' Compensation Should Remain A State Responsibility

The health-care-reform debate necessarily covers the medical component of workers' compensation programs. Chamber policy on this issue is based on these principles:

■ Workers' compensation must remain under exclusive state jurisdiction, and changes should not create or expand federal mandates or otherwise affect state-set benefit levels.

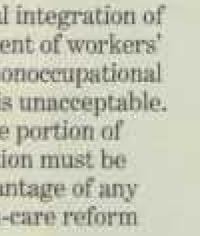
■ Direct and total integration of the medical component of workers' compensation into nonoccupational health-care reform is unacceptable.

■ The health-care portion of workers' compensation must be allowed to take advantage of any medical-cost savings that national health-care reform produces.

Product-Liability Reform Is Getting Closer

The business community's efforts to enact a national product-liability bill this year were given an important boost late last year when the Senate Commerce Committee approved the Product Liability Fairness Act by a vote of 16-4.

A margin that big was unprecedented in the committee's history of considering product-liability legislation and reflects growing support in Congress for reform of liability laws that have produced excessive awards, increases in litigation costs, and delays in the judicial system.



The present arrangement of 50 separate state liability systems has had a crippling effect on U.S. business both domestically and in overseas markets.

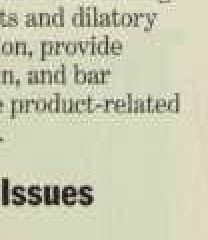
The basic need is for uniform national rules and a redefinition of the responsibilities of those who make, sell, and use products. Reform must strike a balance between the rights and duties of individuals and the financial and competitive restraints that confront manufacturers and sellers.

Reforms should redefine the standards for awarding punitive damages, penalize frivolous suits and dilatory legal tactics, improve court administration, provide alternative methods of dispute resolution, and bar recovery of damages by plaintiffs whose product-related injuries were due to drug or alcohol use.

An Ambitious Agenda On Tax Issues That Affect Business

Tax-related actions ranging from efforts to ease specific levies to a broad examination of the entire revenue-collection system are on the Chamber's tax agenda.

The target of the review is a vast, complex, insensitive code that encourages consumption and discourages saving, the opposite of what public-policy goals should be.



These are immediate legislative priorities:

■ Revising taxation of Subchapter S corporations to simplify compliance, increase the availability of capital, and change treatment of fringe benefits. These steps would benefit 1.6 million small businesses.

■ Retaining the full foreign-tax credit, through which trading nations avoid the potential for double taxation of firms operating internationally. While legislation has been proposed to eliminate the tax or convert it to a deduction, the Clinton administration says any such change could conflict with U.S. treaty obligations and lead to foreign retaliation.

■ Reforming the estate-tax rules to promote the preservation of family-owned businesses.

■ Maintaining the deduction of environmental cleanup costs as a current business expense. The Internal Revenue Service is considering a proposal that would require capitalization and amortization of such expenses.

■ Retaining the deduction for interest that corporations pay on accrued tax obligations and preventing an increase in the tax rate on corporate underpayment.

■ Opposing any limitation on the deductibility of advertising expenses.

Two Major Spending-Restraint Measures Will Be Pursued

The Chamber has long insisted that excess spending, not insufficient revenue, is the primary cause of the federal deficits that have accumulated into a national debt of $4.5 trillion.

Since World War II, spending has gone up an average of $1.59 for every $1 of added taxes collected. The 1990 budget act raised spending $2.37 for every $1 of new revenue.

Given that history, the Chamber is supporting two proposals to enforce fiscal discipline: adding a balanced-budget amendment to the Constitution and creating a

GAIN UPDATE

spending-reduction commission similar to the successful panel on closing military bases.

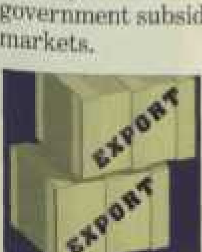
The budget amendment would require that federal spending match income unless a "supermajority" of three-fifths of each house of Congress approved an exception. The same level of support would be needed for an increase in the national debt. Tax increases would be made more difficult through a requirement for a constitutional majority—more than half the full membership of each house—to pass such legislation. At present, a majority of members voting can raise taxes, even if the total number of affirmative votes is less than half of the full membership.

The proposed spending commission would identify $65 billion a year in cuts until the deficit was eliminated. The seven-member panel could not include any current or former members of Congress, and its findings would have to be accepted or rejected as a package not subject to amendment.

As with the successful base-closing commission, a prime value of the spending-cut panel would be the political cover provided to lawmakers caught between the rock of the federal deficit and the hard place of constituents demanding retention of local federal programs. The commission bill is sponsored by Sen. Connie Mack, R-Fla., and Reps. John R. Kasich, R-Ohio, and Dan Miller, R-Fla.

Trade Activity: Following Up On Recent Key Victories

Action on two key trade agreements will be high on Congress' international agenda this year. One involves implementation and enforcement of the North American Free Trade Agreement (NAFTA), approved by Congress late last year. In the other, Congress will decide to accept or reject legislation to implement the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), which provides for broad reductions in tariffs and government subsidies as well as other steps to open world markets.



The Chamber won a major legislative victory with the approval of NAFTA, which will increase U.S.-Mexico trade substantially, creating jobs in both countries.

In other trade developments expected in the new year, the administration will continue its relatively aggressive public posture on market-access issues throughout the world, a strategy that will ease pressure for legislative steps to open foreign markets to U.S. products and investment.

The White House has presented draft legislation to replace the 1961 Foreign Assistance Act. Instead of focusing heavily on supporting anti-Communist regimes, the new system would be geared toward such goals as promoting democracy, encouraging freer trade, and combating nuclear proliferation and terrorism.

Anti-Growth Changes In Labor Laws Will Be Aggressively Opposed

U.S. Chamber opposition to three key labor measures will carry over into the new session of Congress. The pending measures would:

■ Prohibit employers from hiring long-term replacements for workers who engaged in a strike over economic issues.

■ Intensify punitive aspects of the Occupational Safety and Health Act and substantially increase its burden on business.

■ Increase the minimum wage.

Here are details on these issues:

Striker Replacement—Passage of the striker-replacement ban advocated by organized labor would mark a major change in the nation's basic law governing employer-employee relations. While guaranteeing workers the right to strike, the 58-year-old National Labor Relations Act balances this right by allowing the employer to continue operations by filling jobs vacated by strikers. To do so, however, they must be able to offer long-term or permanent employment to the replacements. Denying employers the right to hire such replacements would completely upset the balanced collective bargaining situation that has worked so well for almost 60 years. It would give unions the power to force a company to cease operations until it met union demands, no matter how unreasonable or unrealistic they might be.

The effort to bar replacement of strikers is a desperate effort by organized labor to reverse a decline in membership, now at an all-time low of 11 percent of the private-sector work force.

OSHA—The principal shortcoming of the OSHA amendments before Congress is their emphasis on punishing the employer rather than providing incentives to improve workplace safety.

Changes that have been proposed would:

■ Increase criminal fines for employer violations.

■ Designate as crimes a whole new class of ill-defined conduct—employer actions that cause "serious bodily injury."

■ Make supervisors and managers liable as individuals for intentional violations of the OSHA law or its many regulations and prevent companies from paying any fines levied against them.

■ Require all employers to have a detailed health and safety plan for their respective workplaces and to establish health and safety committees, with equal employer-employee participation, to investigate all accidents, meet regularly on company time, review employer records, receive and investigate employee complaints, and make formal recommendations on health and safety matters.

By contrast, the actual need is for more effective prosecution of current law rather than creation of broader and more severe restrictions. In addition, Congress should

GAIN UPDATE

address directly the leading causes of workplace deaths and injuries—vehicle accidents and homicides.

Minimum Wage—The Clinton administration has deferred to this year action on its promise to increase the minimum wage. Several members of Congress have nevertheless moved ahead of the White House with bills calling for increases that would raise the wage as high as $6.75 an hour, compared with the present $4.25. All of the pending measures would tie the wage level to the rate of inflation, meaning automatic annual increases.

Advocates of a higher minimum wage argue that a breadwinner working at the current rate has an income less than the poverty level for a family of four. Studies over many years have shown, however, that most individuals earning the minimum wage are not the primary wage-earners in their households and are often teen-agers living with parents.

As far as breadwinners are concerned, the proper answer is the Earned Income Tax Credit, through which the tax system subsidizes very-low-income workers. It is the most effective mechanism for getting money to those who need it most.

In addition to those labor measures, the Chamber is also opposing legislation that would prohibit or restrict employer use of electronic devices to monitor the conduct or performance of employees. Sponsors of the bill claim it is designed to protect privacy, but employers counter that effective management of the modern workplace would be impossible under provisions of the measure.

A Sharp Cut In Government-Required Paperwork Remains A Top Goal

The principal need in this area is restraint of government agencies' demands for paperwork. This can be achieved by renewing and strengthening the Paperwork Reduction Act (PRA). Pending legislation would:

■ Strengthen the act's provisions protecting the public and the role of the Office of Information and Regulatory Affairs (OIRA) to restrain government agencies' insatiable demands for paperwork.

■ Extend PRA protection to government-sponsored requirements mandating the disclosure of information by one private party to another private party (the so-called third-party disclosure requirements).

■ Require establishment of a government-wide goal to reduce by at least 5 percent the aggregate paperwork burden existing in the prior fiscal year.

■ Emphasize the responsibility of agencies to solicit and carefully evaluate public comments in the formulation of their information-collection requests.

■ Require agencies to substantiate their estimates of the anticipated paperwork burden on the public from a proposed information-collection request.

■ Strengthen OIRA's ability to assure an agency's compliance with the PRA.

Education/Training Reforms Are Critical To Economic Growth

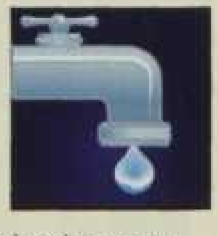
Goals of education legislation ready for Senate action can improve educational and work-force quality and, ultimately, economic growth.

The measure, Goals 2000: Educate America Act, would encourage the development and use of high academic standards for all students, promote parental and community involvement in education, promote education reform in every local school and community, create a mechanism to establish national work-force skill standards, and permit states to use federal grants under the act to develop statewide systemic reforms in education.

In addition, the Chamber is a leading supporter of developing a formal and coherent system to facilitate the transition from school to work for young people. As the primary customer of such a system, business must be the primary source in developing it and be centrally involved in all phases of the system's design, development, operation, and evaluation. This system must be driven by the private sector at the state and local level, be free of any new federal regulations and mandates, and service two main clients: employers and employees.

Environment: Chamber Wants An Alternative Approach

Reauthorization of the Clean Water Act will be among the top environmental issues of 1994. Environmentalists will push for zero discharge on industrial sources and a ban on "highly toxic" chemicals. The Chamber supports an incentive approach to pollution prevention and also backs efforts to develop solutions to address nonpoint sources of pollution, such as agricultural runoff.



Congressional action on the Clean Water Act will be a major battleground for the emerging movement to control unfunded mandates—directives through which the lawmakers require states and localities to spend money but provide no financial assistance to help pay the bills when they come due.

Unfunded mandates raise local taxes and user fees and divert money from economic development.

Other environmental issues deal with Superfund and Risk Assessment. The administration is expected to release soon its legislative principles for Superfund reauthorization that will deal with how and what polluted sites are to be cleaned up and who is to pay. Neither house of Congress is expected to reach specific conclusions this year, but there will be a high level of activity in preparation for action in 1995.

Other initiatives are designed to promote the use of sound science and risk assessment in making environmental decisions. GU

Reach Expands For Quality Seminars

The Quality Learning Services (QLS) Division of the U.S. Chamber of Commerce extended its outreach in 1993, positioning itself for broader broadcast distribution of its quality-management seminars in 1994.

In 1993, the division expanded the marketing of its seminars to institutions, such as community colleges, federal and state governments, nonprofit institutions, and individual businesses. Initially, the seminars were available only to local and state chambers.

Last year, QLS beamed by satellite its spring and fall series of management seminars to nearly 600 downlink sites nationwide, including Puerto Rico, and in Canada and Mexico.

Response has been strong for the service's spring 1994 series of seminars, which begin in late February. The subjects and presenters of the seven spring seminars are:

- Feb. 24—"Global Paradox," John Naisbitt, author, *Megatrends*.
- March 1—"Rapid Learning—Rapid Improvement," Brian Joiner, co-founder and CEO, Joiner Associates.
- March 8—"First Things First—Personal Total Quality Management," A. Roger Merrill, vice president, Stephen R. Covey & Associates.
- April 5—"Beyond Principle-Centered Leadership—Empowerment," Stephen R. Covey, founder and chairman, Covey Leadership Center.
- April 19—"Thinking About Quality—The Deming Philosophy," Clare Crawford-Mason, television producer, and Lloyd Dobbins, journalist.
- May 17—"Building A Customer-Focused, Quality-Based Organization," James Belasco, professor of management, San Diego State University.
- May 24—"Quality At The Crossroads," Jeremy Main, journalist, and G. Howland Blackiston, president, Juran Institute.

For information on being a host for a seminar, call the U.S. Chamber's Quality Learning Services Division at 1-800-835-4730 or, in the Washington, D.C., area, (202) 463-5940.

To attend a seminar, call your local or state chamber, local community college, or Quality Learning Services.

Year Ends With Upturn

The bimonthly Business Ballot poll of U.S. Chamber of Commerce members continued to be a strongly accurate forecaster of the economic outlook throughout 1993.

The Chamber uses the bimonthly results of three economic-outlook questions in the poll to develop its Business Confidence Index, which it reports to the media, members of Congress, and the White House.

The questions ask Chamber members' six-month outlook for their firms' sales, their firms' employment, and the economy in general. The poll also asks questions about other timely matters, frequently dealing with legislation pending on Capitol Hill.

The Business Confidence Index started out on a high note in 1993, registering 62.4, based on February polling. This marked a major improvement in Chamber members' outlook from the late summer and fall of 1992 and was one of the highest indices recorded since the Business Ballot poll began in May 1990.

The February index appeared to be a reflection of business's confidence in the newly inaugurated Clinton administration, which vowed to tackle quickly the growing federal budget deficit.

But the index declined steadily in April, June, and August as public and congressional debates ensued over President Clinton's economic-stimulus proposal—which the Chamber and other opponents said would have significantly increased federal spending—and his budget bill, which the Chamber said relied too heavily on tax increases and not enough on spending cuts. Congress defeated the economic stimulus bill but passed the budget legislation, which contained the largest cumulative tax hike in U.S. history.

The index declined to 59.3 in April, to 47.7 in June, and to 45.6 in August, its lowest point since December 1991.

In October, confidence began to pick up slightly, and the index rose to 46.4. As the year closed, confidence picked up dramatically, with the December index jumping to 54.3.

Whether the index will move up or down next will be determined by the responses of yourself and other Chamber members to the February Business Ballot. The poll is included in the polybag with your February Nation's Business *and* The Business Advocate.

Annual Meeting Set For Feb. 28

Erskine Bowles, head of the Small Business Administration, will be the keynote speaker at the 1994 National Small Business Conference of the U.S. Chamber of Commerce.

This annual meeting of U.S. Chamber members will be at the federation's headquarters in Washington, D.C., on Feb. 28. The one-day conference will also be broadcast by satellite to locations throughout the country. The conference is free to Chamber members.

Bowles will talk about the Clinton administration's small-business agenda for 1994. Other discussions will focus on important business-related issues and the 1995 White House Conference on Small Business. The state conferences leading up to the White House conference will be kicked off this April.

Other highlights of the Chamber meeting will be the presentation to Bowles of the Chamber's 1994 small-business agenda and the recognition of the four national honorees in the National Blue Chip Enterprise Initiative. The initiative is sponsored by Connecticut Mutual Life Insurance Co., the U.S. Chamber, and *Nation's Business* magazine and recognizes small businesses that have overcome adversity.

For the location of the satellite downlink nearest you or for more information about the conference, call (202) 463-5427.

1993 Highlights

Highlights of the past year ranged from the Chamber's National Business Action Rally in February to a nationally broadcast town meeting on the North American Free Trade Agreement before the critical congressional votes in November. Other notable events included addresses by key officials and recognition of the outstanding small businesses named as 1993 honorees of the National Blue Chip Enterprise Initiative.

In top photo, 1993-94 U.S. Chamber Chairman Ivan W. Gorr explains the importance of the North American Free Trade Agreement at a national town meeting broadcast from the Chamber to more than 600 downlink sites nationwide. With Gorr are moderator and Chamber Vice President for Communications Development Meryl Comer, NAFTA coalition leader Lawrence Bossidy, and U.S. Chamber President Richard L. Lesher. At right, Labor Secretary Robert Reich, President Clinton, and Education Secretary Richard Riley appear at a Chamber-produced education teleconference.

House Speaker Thomas S. Foley, D-Wash., addresses the National Business Action Rally.

EPA Administrator Carol Browner talks with small-business people at the Chamber.

Vice President Al Gore, SBA Administrator Erskine Bowles, and Chamber President Richard L. Lesher confer at the Chamber.

At left, Chamber President Richard L. Lesher, right, and 1993-94 Chamber Chairman Ivan W. Gorr, left, present the National Business Agenda, based on a series of Chamber regional meetings, to President Clinton at the organization's National Business Action Rally. Below, Sen. Connie Mack, R-Fla., pushes his proposal for a federal budget commission in a Chamber address.

U.S. Attorney General Janet Reno was the keynote speaker at a Chamber-sponsored conference on civil-justice reform. At the right is Tyler Wilson, a domestic-policy attorney with the Chamber.

1993 National Blue Chip Enterprise honorees were recognized at the National Business Action Rally. From left to right are Jim and Stacee Cover, George Lopez, Deno Macricostas, and G. Rives Neblett.

Treasury Secretary Lloyd Bentsen explains the president's economic legislation.

Above, Sen. Phil Gramm, R-Texas, discusses the president's economic plan. At right, Commerce Secretary Ron Brown outlines a Clinton administration technology initiative.

NCLC Continues Its Winning Ways

The U.S. Chamber of Commerce's public-policy law firm, the National Chamber Litigation Center (NCLC), helped win several cases important to business in 1993, including two cases before the U.S. Supreme Court.

"NCLC's involvement in a record number of cases produced crucial victories for business in the areas of employment discrimination, environmental liability, and punitive damages," said Stephen A. Bokat, the center's executive vice president. Bokat called on companies to support the legal center so it can continue to work to see that legal issues are resolved in business's favor.

The litigation center, funded through corporate donations, filed briefs in 25 cases during the year. (Many of those cases are still pending at various court levels.) Following are summaries of NCLC's 1993 victories:

■ Employment Discrimination

In *St. Mary's Honor Center, et al. vs. Hicks*, the Supreme Court reversed a lower-court ruling on job discrimination. The U.S. Court of Appeals for the 8th Circuit had found that disproving an employer's stated reasons for demoting or firing an employee was itself proof that discrimination was the actual reason. In reversing that ruling, the Supreme Court said that employees making racial-discrimination charges must prove those charges as well as disprove the reasons given by the employer.

In the case, a black correctional officer at a prison was demoted, then fired for violating rules and threatening his supervisor, according to the employer. The employee alleged he was demoted and discharged because of his race and that the issues of the rules violations and threat were just pretexts. The lower court held that the employer's stated reason for dismissing the worker were not valid and ruled that he had satisfied his burden of proving racial discrimination.

The high court, however, reversed the lower court, saying the plaintiff must show "*both* that the reason [given by the employer] was false, *and* that discrimination was the real reason" for the dismissal.

■ Age Discrimination

In another case before the Supreme Court, the justices ruled that fired workers must prove they were victims of age bias to prove that an employer violated the federal law against age discrimination.

In *Hazen Paper Company vs. Biggins*, a nine-year employee of the paper firm was fired when he refused to restrict his outside business activities, which included two ventures with competitors of the paper company.

The 62-year-old worker refused to agree with the paper firm's request unless he was given a substantial salary increase. He was just a few weeks short of becoming eligible for a pension when he was let go.

> NCLC's involvement in a record number of cases produced crucial victories for business.
>
> — Stephen A. Bokat, Executive Vice President, NCLC

The employee filed suit in a U.S. district court under the Age Discrimination in Employment Act (ADEA), alleging that he was fired because the employer did not want to pay his pension. A jury agreed with the worker and also found that the company's age discrimination was willful, thus subjecting it to double damages under the law.

The U.S. Court of Appeals for the 1st Circuit upheld the jury finding and said that the willful standard can be met merely by showing that an employer knew age discrimination was illegal.

NCLC argued in a brief to the Supreme Court that willful ADEA violations must be proved by showing that an employer's conduct was outrageous or egregious.

The high court, in a 9-0 ruling, said that to win damages for age bias, an employee must prove that the cause for dismissal was age rather than some other factor, such as eligibility for a pension. The justices, however, refused to adopt the legal center's argument that an ADEA violation required "outrageous" or "egregious" conduct by an employer.

■ Contract Negotiations

In a case related to contracts, the U.S. Court of Appeals for the District of Columbia Circuit ruled recently that employers are not required to reaffirm or renegotiate every provision of a contract if the contract as a whole is accepted by a bargaining unit.

The appellate court agreed with NCLC in the case of *Gannett Rochester Newspapers vs. National Labor Relations Board*. NCLC argued that a requirement that all contract provisions be reaffirmed in subsequent negotiations on a collective-bargaining agreement would "consume inordinate amounts of time and jeopardize old compromises."

Gannett had negotiated a "zipper clause" into collective-bargaining agreements with its employees' union. Under the clause, both parties waived their rights to demand bargaining on issues not included in the collective-bargaining agreements. The clause was redated with each new agreement, but it was not renegotiated during each bargaining session.

The National Labor Relations Board had ruled that the zipper clause must be reaffirmed with each new contract. The district court overturned that decision.

■ Pollution Cleanup Costs

In a case nearly identical to one that NCLC won in 1992, the U.S. Court of Appeals for the 2nd Circuit ruled in favor of companies in certain circumstances in Superfund liability suits.

The court said that companies may contest allegations of liability for contamination at a Superfund hazardous-waste site by proving that any substances that they deposited at the site could not have caused or contributed to a site's contamination.

Both the 1992 case and the latest one pitted Alcan Aluminum Corp. against the U.S. government.

Under the Superfund law, to prove a company's liability, the government

must show only that a firm disposed of hazardous substances—which are broadly defined—at a site. Further, the statute allows the government to hold the parties to a polluted site individually and jointly responsible for the cleanup costs.

In the 1992 case, the appeals court for the 3rd Circuit ruled that companies named as responsible parties to a Superfund site should be allowed to prove what percentage of the total contamination is their responsibility and pay cleanup costs related to that portion only. The court also agreed with NCLC that if a company could establish that its substances could not have caused or contributed to the site's contamination, it should not be liable for any of the cleanup costs.

NCLC attorneys Robin Conrad (left), Mona Zeiberg, and Ken Alexander review business-related court cases in which the legal center is involved. NCLC filed briefs in support of business in 25 cases in 1993.

■ North American Free Trade Pact

The Chamber litigation center, along with several business and trade groups, successfully argued to a U.S. court of appeals that the federal government did not have to prepare a lengthy environmental-impact statement before the North American Free Trade Agreement (NAFTA) could take effect.

The winning arguments were made in a friend-of-the-court brief to the U.S. Court of Appeals for the District of Columbia.

The trade pact was approved by Congress in November and will phase out tariff and nontariff barriers to trade between the U.S., Canada, and Mexico.

Several environmental groups sued the Office of the U.S. Trade Representative in September 1992 under the Administrative Procedure Act to compel it to prepare an environmental-impact statement on NAFTA.

The National Environmental Policy Act requires federal agencies to prepare such statements for legislation and major actions "significantly affecting the quality of the human environment."

However, the appeals court pointed out in its late September ruling that the Administrative Procedure Act only allows judicial review of "final agency action."

The U.S. trade representative's office and the Chamber legal center argued that final negotiations on the trade pact do not constitute final action on NAFTA. The president takes final action on all trade agreements when they are submitted to Congress, and presidential actions are not reviewable under the Administrative Procedure Act.

The appeals court agreed with that argument and reversed the lower court's ruling.

■ Clean Water Act Compliance

The 2nd Circuit Court of Appeals ruled favorably for business in another case related to the environment.

The court upheld a district court decision to dismiss a suit brought by an environmental group against Eastman Kodak Co. for discharging pollutants not specifically listed on federal or state permits.

The permits are issued for wastewater discharges under the federal Clean Water Act. There are about 70,000 plants in the U.S. that hold discharge permits.

The appeals court, agreeing with NCLC, which filed a friend-of-the-court brief on behalf of Kodak, said companies "may discharge pollutants not specifically listed in their permits so long as they comply with the appropriate reporting requirements and abide by any new limitations when imposed on such pollutants."

The Environmental Protection Agency, which oversees the Clean Water Act, lists hundreds of toxic substances that must be reported by companies if they discharge them. But the agency has said it would be impossible to identify and limit every chemical or compound present in a discharge of pollutants.

■ Tort Liability

In *City of Philadelphia vs. Lead Industries Association*, the U.S. Court of Appeals for the 3rd Circuit upheld a traditional tort-law requirement. It said that a plaintiff must indeed prove that a defendant's actions caused the harm alleged before the defendant can be found liable for damages.

The city of Philadelphia had tried to hold several paint manufacturers and their association liable for abatement procedures and removal costs of lead paint in public housing. The city also sought compensatory damages of $100 million.

Because it could not identify any specific paint maker as the one that caused the harm—lead paint has been proved harmful to public health—the city sued under three relatively novel collective-liability approaches:

■ Market-share liability, which would apportion the damages among the defendants based on their share of the market;

■ Alternative liability, which would hold jointly and individually liable all defendants who could not prove their innocence; and

■ Enterprise liability, which would hold all defendants jointly and individually liable if (1) they all produced the injury-causing product; (2) they all had knowledge of the risks inherent in the product and all possessed the capacity to reduce the risks; 3) each delegated the responsibility to set industry safety standards to a trade association that failed to reduce the risks.

The appellate court rejected the collective-liability theories and upheld a lower court's dismissal of the suit.

Comments from national leaders over the past year emphasize the value of the Chamber's active role in important business-related issues on Capitol Hill. Here is a sampling of remarks made by leaders in both political parties.

"The Chamber is committed to doing these kinds of programs — training, education, retraining — and we've aimed to work very closely with the Chamber [on these matters]."

—Labor Secretary Robert Reich

"Having the Chamber behind us is critically necessary [to passage of a balanced-budget amendment to the Constitution]. The Chamber is extremely valuable."

—Sen. Larry E. Craig, R-Idaho

"I want to thank [U.S. Chamber President] Dick Lesher and [1993-94 Chamber Chairman] Ivan Gorr and [coalition chairman] Larry Bossidy for their work through U.S.A. NAFTA and the Chamber of Commerce to help us pass this very important piece of legislation."

—President Clinton on the North American Free Trade Agreement

"The Chamber of Commerce is an important group. Its network of business people is very valuable [on labor issues]."

—Sen. Nancy Landon Kassebaum, R-Kan.

"This [striker-replacement issue] is a battle we must win...You [the Chamber] are really making a difference."

—Sen. Orrin G. Hatch, R-Utah

"I look forward to working with the Chamber for passage of S. 560 [Paperwork Reduction Act reauthorization] early in the 103rd Congress. Your support and analysis will be invaluable."

—Sen. Dale Bumpers, D-Ark.